**The Worst Charter Schools in Arizona - Part 2**

**BASIS Schools lost $5 million in 2017 – the most in Arizona**

*BASIS has $32 million in red ink while increasing management expenditures to record levels*

**Summary:**

Fifteen of BASIS School’s 17 Arizona charters lost a total of $5 million last year, increasing BASIS total negative assets to over $32.1 million, the largest in the state. BASIS claims that the red ink is simply ledger entries caused by “write-off of loan issuance costs and prepayment penalties” they have had to pay to refinance $280 million in real estate loans the last few years. Refinancing alone cost BASIS $14 million in 2016 and 2017.

But BASIS overspent its budget by $5 million in 2017, independent of refinancing. A big chunk of BASIS’ record setting red ink comes from its administrative costs which are the highest of any school system in Arizona. BASIS.ed Inc., the for-profit company that manages all BASIS schools, spent $27.6 million on administration in 2017 for such things as management fees, executive salaries and expansion - $9.8 million more than in 2016. Seven BASIS schools spent over $1 million for just school administration - BASIS Scottsdale spent an unbelievable $1.7 million for school administration alone – enough to pay 14 principals $100,000 each with benefits.

One thing is certain – funds didn’t go to the classroom where spending in BASIS decreased by $299/pupil in 2017. BASIS parents are told that BASIS.ed Inc. must charge fees for everything, including workbooks and class materials, because they are underfunded by the state. They also ask parents to donate $1,500 annually to help the beleaguered BASIS.ed Inc. pay teacher salaries. Last year Arizona BASIS parents paid $13 million to BASIS, nearly $2 million more in fees and donations at existing schools than in 2016. It apparently didn’t make its way to the classroom.

BASIS is Governor Ducey’s poster child for school choice and BASIS Scottsdale is “best” school in the country according to U.S. News & World Reports But BASIS is diverting millions into administrative expenditures that go directly to BASIS ed Inc., the for profit company owned by BASIS founder Michael Block. Since BASIS ed Inc. is a private company the public does not have the right to know how they are spending tax funds. But one thing is certain – BASIS schools did not suddenly become $10 million more expensive to manage in a single year.

The other large charter chains of similar enrollment do not have these problems. Legacy Traditional Academies (11,050 students) operates their schools on $10 million *less* a year than BASIS (12,653 students). Great Hearts Academies(11,599 students) show a $26 million *surplus* compared to the BASIS $32 million deficit.

These numbers seem to indicate that BASIS is one of the most mismanaged charter companies in Arizona.

**BASIS is drowning in red ink:**

BASIS Schools non-profit has been consistently losing money since 2013 and lost almost $10 million a year 2015-2017.[[1]](#footnote-1)

BASIS Schools non-profit end of year assets 2011-2017

|  |  |
| --- | --- |
|  | Net assets (deficit), end of year |
| 2011 | -$25,604.00 |
| 2012 | $688,632.00 |
| 2013 | -$1,517,149.00 |
| 2014 | -$5,708,917.00 |
| 2015 | -$13,312,226.00 |
| 2016 | -$22,989,424.00 |
| 2017 | -$32,153,102.00 |

BASIS executives claim that the losses are the result of multiple loan re-financings that cost millions in pre-payment penalties and fees. But much of the red ink is the result of poor financial management. BASIS Schools were profitable in 2016 showing a $633,000 surplus in revenue over expenses, but 14 of 17 Arizona BASIS Schools lost money in 2017 - a total loss of over $5 million.[[2]](#footnote-2)

BASIS Schools individual differences between revenue and expenditures 2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | Total Maintenance Operation Expenditures | Total Revenue from All Sources | Revenue-Expenses |
| BASIS Schools, Inc. Ahwatukee | $5,768,439 | $5,738,928 | -$29,511 |
| BASIS Schools, Inc. Chandler | $7,276,769 | $7,239,209 | -$37,560 |
| BASIS Schools, Inc. Chandler Primary | $4,045,384 | $3,582,902 | -$462,482 |
| BASIS Schools, Inc. Chandler Primary North | $4,423,797 | $4,047,893 | -$375,904 |
| BASIS Schools, Inc. Flagstaff | $5,098,472 | $5,063,342 | -$35,130 |
| BASIS Schools, Inc. Goodyear | $1,826,425 | $1,454,287 | -$372,138 |
| BASIS Schools, Inc. Mesa | $5,273,050 | $5,059,221 | -$213,829 |
| BASIS Schools, Inc. Oro Valley | $4,901,611 | $4,640,479 | -$261,132 |
| BASIS Schools, Inc. OV Primary | $5,956,970 | $5,502,560 | -$454,410 |
| BASIS Schools, Inc. Prescott | $7,111,695 | $5,741,638 | -$1,370,057 |
| BASIS Schools, Inc. Scottsdale | $8,979,873 | $8,970,501 | -$9,372 |
| BASIS Schools, Inc. Scottsdale Primary | $4,905,786 | $4,392,505 | -$513,281 |
| BASIS Schools, Inc. Tucson | $6,417,747 | $5,997,512 | -$420,235 |
| BASIS Schools, Inc.Phoenix Central | $7,038,077 | $6,581,607 | -$456,470 |
| BASIS Total |  |  | -$5,011,511 |

It is very informative to compare the net income and assets of the Great Hearts chain. Great Hearts has been on the same expansion path as BASIS and now has 22 schools with a total enrollment in 2017 of 11,599, compared to BASIS 12,653 students.[[3]](#footnote-3) Great Hearts is a college prep charter that operates in new, modern facilities, just like BASIS. But somehow Great Hearts schools are not losing money - the Great Hearts chain had a surplus of over $6 million dollars in 2016 and $4.7 million in 2017, bringing their total positive assets to over $ 26 million.[[4]](#footnote-4)

Great Hearts individual school’s increase in assets 2016-2017 and total end of year assets

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Great Hearts School** | **Increase in net assets 2016** | **Increase in net assets 2017** | **Total Assets 2016** | **Total Assets 2017** |
| Archway Aerte | $309,988 | $185,047 | $600,182 | $785,229 |
| Archway Chandler | $339,842 | $478,103 | $2,171,634 | $2,604,393 |
| Archway Cicero | $466,707 | $197,122 | $1,004,502 | $1,201,624 |
| Archway Chandler | $425,683 | $149,272 | $1,015,960 | $1,165,232 |
| Archway Lincoln | $193,530 | $336,827 | -$1,996 | $213,834 |
| Archway North Phoenix | $206,506 | $427,374 | $1,032,209 | $1,032,209 |
| Archway Scottsdale | $280,393 | $267,830 | $2,020,224 | $2,288,054 |
| Archway Trivium East | $343,970 | $69,589 | $149,111 | $218,700 |
| Archway Trivium West | $59,259 | $251,442 | $1,470,720 | $1,722,162 |
| Archway Veritas | $402,511 | $418,724 | $1,526,446 | $1,898,749 |
| Anthem Prep | $420,688 | $660,395 | $1,583,222 | $1,583,142 |
| Arete Prep | $220,331 | $266,785 | $1,065,669 | $1,183,829 |
| Chandler Prep | $137,473 | -$479 | $2,449,495 | $2,649,016 |
| Cicero Prep | $143,252 | $110,857 | $217,359 | $328,216 |
| Glendale Prep | $433,523 | $364,014 | $1,564,008 | $1,928,022 |
| Lincoln Prep | $156,117 | -$192,609 | -$15,362 | -$207,941 |
| Maryvale Prep | -$38,674 | $54,487 | $73,464 | $127,951 |
| North Phx Prep | $75,888 | $68,358 | $701,286 | $769,644 |
| Scottsdale Prep | $909,384 | $413,884 | $2,540,751 | $2,954,635 |
| Teleos Prep | $8,416 | $13,804 | -$679,821 | -$666,017 |
| Trivium Prep | $66,208 | $159,387 | $1,184,247 | $1,343,634 |
| Veritas Prep | $449,712 | $71,421 | $1,310,099 | $1,381,520 |
|  |  |  |  |  |
| **Totals** | **$6,010,707** | **$4,771,634** | **$22,983,409** | **$26,505,837** |

There is a $58 million difference between Great Hearts rise to be one of the largest charter chains in Arizona and the similar expansion of BASIS.ed Inc. We believe that BASIS.ed Inc. has extracted much of this through excessive management expenditures.

**BASIS leads Arizona in high administrative costs:**

BASIS per pupil spending for administration is among the highest in the state. The average public district spends $863/pupil while BASIS spends $2,320/pupil on administration.[[5]](#footnote-5)

BASIS individual school total administration per pupil 2017

|  |  |
| --- | --- |
| Charter Holder | Total Administration/Pupil |
| BASIS Schools, Inc. Tucson | $2,244 |
| BASIS Schools, Inc. Scottsdale | $2,496 |
| BASIS Schools, Inc. Oro Valley | $2,709 |
| BASIS Schools, Inc. Peoria | $2,077 |
| BASIS Schools, Inc. Chandler | $2,513 |
| BASIS Schools, Inc. Flagstaff | $2,321 |
| BASIS Schools, Inc. Phoenix | $2,129 |
| BASIS Schools, Inc. Tucson North | $1,853 |
| BASIS Schools, Inc. Mesa | $2,376 |
| BASIS Schools, Inc. Ahwatukee | $2,257 |
| BASIS Schools, Inc. OV Primary | $1,886 |
| BASIS Schools, Inc. Prescott | $2,491 |
| BASIS Schools, Inc.Phoenix Central | $2,131 |
| BASIS Schools, Inc. Chandler Primary North | $2,652 |
| BASIS Schools, Inc. Scottsdale Primary | $2,980 |
| BASIS Schools, Inc. Chandler Primary | $3,243 |
| BASIS Schools, Inc. Goodyear Primary | $1,612 |
| BASIS Schools, Inc. Goodyear | $3,152 |
| Total | $2,320 |

School choice proponents argue that it is unfair to compare charter administration costs with district expenses, although the only difference we can find is perhaps in advertising costs. Legacy Traditional Academy has a similar number of students as BASIS yet spends *$10 million less* running their schools. Larger charter organizations, like BASIS, should be able to operate more efficiently because all schools can be managed by one central office, yet much smaller charters like Pointe Education Services with four schools and the Arizona School for the Arts with a single campus run their schools with half of the money per pupil as BASIS.[[6]](#footnote-6)

Comparison of 2017 administrative expenditures at BASIS and three other Arizona charter holders

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2017 Enrollment | General Administration | School Administration | Central Administration | Total Administration | Admin/pupil |
| BASIS Total | 12,467 | $8,982,273 | $16,961,316 | $2,476,596 | $28,420,185 | $2,281 |
| Legacy total | 11,042 | $626,725 | $5,069,980 | $11,338,817 | $17,035,522 | $1,543 |
| Point Educational Services | 1,362 | $118,669 | $735,358 | $700,992 | $1,555,019 | $1,142 |
| Arizona School for the Arts | 852 | $270,413 | $311,580 | $471,711 | $1,053,704 | $1,237 |

**Where does BASIS.ed Inc. money go? It depends on how BASIS cooks the books in a given year.**

BASIS is very creative when it comes to reporting spending, especially administrative spending. Administrative spending is required to be reported in three categories that are distinct and well defined by the Uniform System of Financial Records that guides all Arizona schools:

**General Administration**—Activities concerned with establishing and administering policy for operating the school, including governing board services, executive administration services, and lobbying.

**School Administration**—Activities concerned with overall administrative responsibility for a particular campus, including office of the principal services.

**Central Services**—Activities that support other administrative and instructional functions, including fiscal services; purchasing; warehousing and distributing services; printing, publishing, and duplicating services; planning, research, development, and evaluation services; public information services; personnel services; and administrative technology services.

BASIS, it seems, reports administrative spending however they see fit. In 2015 BASIS spent $1,346/pupil on general administration but in 2017 that number dropped to $718/pupil. School administration went from $662/pupil in 2015 to $1,444 in 2017. It is not possible that half of the general administration costs for BASIS disappeared or for school administration to suddenly increase by $782/pupil. BASIS Inc. simply moved money around to meet corporate needs.[[7]](#footnote-7) (See Appendix 1)

This creative record keeping was blatant between 2016 and 2017. Existing BASIS schools total administrative costs went up nearly $10 million between 2016 and 2017. School administrative salaries nearly doubled, increasing by $5 million between 2016-17.

Did the 16 existing BASIS schools suddenly cost $10 million more to operate in 2017? Or did BASIS.ed Inc. need an infusion of cash to keep their charter empire afloat?

BASIS administrative spending 2016-2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2016 Total Administration | 2017 Total Administration | Increase 2017 |
| BASIS Schools, Ahwatukee | $1,180,418 | $1,685,825 | $505,407 |
| BASIS Schools, Chandler | $1,214,032 | $2,233,345 | $1,019,313 |
| BASIS Schools, Chandler Primary | $920,524 | $1,409,582 | $489,058 |
| BASIS Schools, Flagstaff | $962,588 | $1,451,392 | $488,804 |
| BASIS Schools, Goodyear | $284,264 | $565,910 | $281,646 |
| BASIS Schools, Goodyear Primary | $599,292 | $929,005 | $329,713 |
| BASIS Schools, Mesa | $1,150,315 | $1,519,057 | $368,742 |
| BASIS Schools, OV | $1,022,670 | $1,526,450 | $503,780 |
| BASIS Schools, OVP | $1,308,664 | $1,416,776 | $108,112 |
| BASIS Schools, Peoria | $1,126,644 | $1,479,208 | $352,564 |
| BASIS Schools, Phoenix | $1,069,969 | $1,642,591 | $572,622 |
| BASIS Schools, Phoenix Central | $1,324,346 | $1,937,519 | $613,173 |
| BASIS Schools, Prescott | $1,346,700 | $2,677,955 | $1,331,255 |
| BASIS Schools, Scottsdale | $1,153,275 | $1,559,179 | $405,904 |
| BASIS Schools, Scottsdale Primary | $496,491 | $1,784,070 | $1,287,579 |
| BASIS Schools, Tucson | $1,288,634 | $1,949,194 | $660,560 |
| BASIS Schools, Tucson North | $1,312,824 | $1,854,915 | $542,091 |
| **Total Administration** | **$17,761,650** | **$27,621,973** | **$9,860,323** |

**Classroom spending and parent donations:**

BASIS did save money in one area in 2017 – the classroom. Per pupil spending for classroom instruction decreased by $299 between 2016 and 2017.[[8]](#footnote-8)

BASIS instruction spending per pupil 2016-2017

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2016 Instruction/pupil | 2017 Instruction/pupil | Difference |
| BASIS Schools, Ahwatukee | $3,688 | $3,359 | -$328 |
| BASIS Schools, Chandler | $3,860 | $3,412 | -$448 |
| BASIS Schools, Chandler Primary | $3,250 | $3,492 | $242 |
| BASIS Schools, Flagstaff | $3,926 | $3,484 | -$442 |
| BASIS Schools, Goodyear | $4,509 | $4,236 | -$273 |
| BASIS Schools, Goodyear Primary | $4,163 | $2,702 | -$1,461 |
| BASIS Schools, Mesa | $4,111 | $3,739 | -$372 |
| BASIS Schools, OV | $3,977 | $3,559 | -$418 |
| BASIS Schools, OVP | $3,280 | $3,181 | -$99 |
| BASIS Schools, Peoria | $3,396 | $3,168 | -$229 |
| BASIS Schools, Phoenix | $3,733 | $3,426 | -$306 |
| BASIS Schools, Phoenix Central | $2,928 | $2,787 | -$140 |
| BASIS Schools, Prescott | $3,337 | $3,431 | $94 |
| BASIS Schools, Scottsdale | $4,181 | $3,548 | -$633 |
| BASIS Schools, Scottsdale Primary | $4,053 | $3,937 | -$115 |
| BASIS Schools, Tucson | $3,338 | $3,122 | -$216 |
| BASIS Schools, Tucson North | $3,415 | $2,961 | -$454 |
| Total | $3,621 | $3,322 | -$299 |

BASIS parents are required to pay fees for all activities, materials and supplies. Parents are also asked to donate $1,500/year to help pay teacher salaries. Fees and donations to existing BASIS schools increased by nearly $2 million in 2017 to a total of $13 million.[[9]](#footnote-9)

BASIS local revenue fees and donations 2016-2017

|  |  |  |
| --- | --- | --- |
|  | 2016 Fee and Donations | 2017 Fee and Donations |
| BASIS Schools, Ahwatukee | $680,070 | $693,200 |
| BASIS Schools, Chandler | $821,666 | $1,111,258 |
| BASIS Schools, Chandler Primary | $586,629 | $653,707 |
| BASIS Schools, Flagstaff | $466,983 | $497,534 |
| BASIS Schools, Goodyear | $181,935 | $174,595 |
| BASIS Schools, Goodyear Primary | $303,247 | $456,534 |
| BASIS Schools, Mesa | $453,505 | $414,892 |
| BASIS Schools, OV | $414,839 | $496,795 |
| BASIS Schools, OVP | $832,415 | $802,696 |
| BASIS Schools, Peoria | $718,300 | $680,458 |
| BASIS Schools, Phoenix | $866,493 | $871,934 |
| BASIS Schools, Phoenix Central | $906,795 | $1,110,834 |
| BASIS Schools, Prescott | $660,119 | $641,933 |
| BASIS Schools, Scottsdale | $1,369,549 | $1,713,169 |
| BASIS Schools, Scottsdale Primary | $329,897 | $1,081,593 |
| BASIS Schools, Tucson | $956,528 | $987,732 |
| BASIS Schools, Tucson North | $712,770 | $736,439 |
| Total | $11,261,740 | $13,125,303 |
|  |  |  |
| BASIS Schools Chandler Primary North | New 2017 | $754,169 |

BASIS parents should question how it is possible to increase donations by $2 million but cut classroom spending by $300/pupil while increasing BASIS.ed. Inc.’s profits by $10 million.

**Conclusions:**

1. **Refinancing costs:** BASIS executives claim the expensive refinancing of debt will create lower overall mortgage payments in the future. But, as every homeowner knows, refinancing also allows equity to be converted into cash. It would be very interesting to be able to track how much of BASIS nearly $300 million in real estate loans was actually spent building and furnishing the schools in Arizona….and how much is going into the coffers of BASIS.ed Inc.
2. **Management expenditures:** BASIS Schools are cutting classroom spending and borrowing money to keep afloat financially while paying themselves $10 million more for management expenses than similar sized Legacy Traditional Academies. Competitor Great Hearts Academies has made $26 million in positive assets (non-profits do not post “profits”) while BASIS has lost $32 million since 2012. Arizona non-profit BASIS Schools are losing money at a record pace and are cutting back on classroom expenditures while for-profit BASIS ed Inc. is siphoning off tens of millions of dollars - perhaps to pay executive salaries and to finance the world-wide expansion of the BASIS.ed Inc. real estate empire.

Why does it matter how BASIS spends tax money? It should be important to BASIS parents that are being coerced into spending $13 million subsidizing BASIS.ed Inc. profits instead of seeing their contributions going to their child’s classroom. And it should be important to policy makers that charter schools are being funded in a way that allows BASIS to divert $10 million to corporate profits instead of the classroom in a single year.

But since the Arizona State Board for Charter Schools does not monitor how charter schools spend tax dollars, they are probably going to buy the BASIS ed Inc. argument that the $32 million in losses are just temporary bookkeeping problems caused by their sincere desire to lower mortgage payments to save tax money.

Are public funds being misappropriated? The Arizona State Board for Charter Schools shoulddirect the Auditor General to conduct a complete audit of the $278 million in real estate loans and the $28 million in administrative costs that seem to be fueling the expansion of BASIS.ed Inc. (and perhaps the descent of BASIS Schools into bankruptcy?). We all know that will not happen.

Nevertheless, BASIS qualifies as one of the worst charter companies in Arizona in terms of utilizing public funds appropriately.

**Appendix:**

1. BASIS individual school spending on general, school, and central administration 2017

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Charter Holder | Enrollment October 1, 2016 | 2300 Regular Education General Administration | 2400 Regular Education School Administration | 2500 2800 Regular Education Business and Central | Total |
| BASIS Schools, Inc. Ahwatukee | 756 | $531,311 | $853,631 | $300,883 | $1,685,825 |
| BASIS Schools, Inc. Chandler | 897 | $675,361 | $1,460,552 | $97,432 | $2,233,345 |
| BASIS Schools, Inc. Chandler Primary | 441 | $326,761 | $895,347 | $187,474 | $1,409,582 |
| BASIS Schools, Inc. Chandler Primary North | 522 | $370,860 | $900,212 | $93,050 | $1,364,122 |
| BASIS Schools, Inc. Flagstaff | 634 | $467,428 | $897,505 | $86,459 | $1,451,392 |
| BASIS Schools, Inc. Goodyear | 186 | $123,677 | $407,612 | $34,621 | $565,910 |
| BASIS Schools, Inc. Goodyear Primary | 589 | $380,043 | $494,175 | $54,787 | $929,005 |
| BASIS Schools, Inc. Mesa | 648 | $468,006 | $784,042 | $267,009 | $1,519,057 |
| BASIS Schools, Inc. Oro Valley | 571 | $426,316 | $1,023,265 | $76,869 | $1,526,450 |
| BASIS Schools, Inc. OV Primary | 762 | $508,000 | $814,999 | $93,777 | $1,416,776 |
| BASIS Schools, Inc. Peoria | 722 | $549,688 | $839,006 | $90,514 | $1,479,208 |
| BASIS Schools, Inc. Phoenix | 781 | $590,399 | $955,207 | $96,985 | $1,642,591 |
| BASIS Schools, Inc. Prescott | 786 | $533,652 | $1,101,896 | $301,971 | $1,937,519 |
| BASIS Schools, Inc. Scottsdale | 1081 | $840,876 | $1,724,393 | $112,686 | $2,677,955 |
| BASIS Schools, Inc. Scottsdale Primary | 530 | $402,342 | $1,084,250 | $72,587 | $1,559,179 |
| BASIS Schools, Inc. Tucson | 804 | $555,748 | $1,137,788 | $90,534 | $1,784,070 |
| BASIS Schools, Inc. Tucson North | 1063 | $745,367 | $1,079,525 | $124,302 | $1,949,194 |
| BASIS Schools, Inc. Phoenix Central | 880 | $610,115 | $915,523 | $329,277 | $1,854,915 |
|  |  |  |  |  | $28,986,095 |

1. Annual BASIS consolidated audits found at: https://online.asbcs.az.gov/charterholders/search/results?corporate\_name=basis&entity\_id=&ctds= [↑](#footnote-ref-1)
2. Annual Financial Reports 2017 found at: http://www.ade.az.gov/schoolfinance/forms/leaquery/submittedfiles.aspx [↑](#footnote-ref-2)
3. October 1 enrollment reports 2015 and 2016 [↑](#footnote-ref-3)
4. Great Hearts files individual audits for each school found at: https://online.asbcs.az.gov/charterholders/search [↑](#footnote-ref-4)
5. District costs are from the Superintendent’s Annual Report 2017 Vol. 1. BASIS data is from Annual Financial Reports 2017 found at: http://www.ade.az.gov/schoolfinance/forms/leaquery/submittedfiles.aspx [↑](#footnote-ref-5)
6. 2016, 2017 Annual Financial Reports found at: http://www.ade.az.gov/Districts/EntitySelection.asp [↑](#footnote-ref-6)
7. Comparison of administrative expenditures from 2016 and 2017 Annual Financial Reports found at: http://www.ade.az.gov/Districts/EntitySelection.asp [↑](#footnote-ref-7)
8. 2016, 2017 BASIS Annual Financial Reports found at: http://www.ade.az.gov/Districts/EntitySelection.asp [↑](#footnote-ref-8)
9. 2016, 2017 BASIS Annual Financial Reports found at: http://www.ade.az.gov/Districts/EntitySelection.asp [↑](#footnote-ref-9)