

BASIS SCHOOLS, INC.

**Consolidated Financial Statements
and
Supplementary Information**

Year Ended June 30, 2017

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Independent Auditors' Report

To the Board of Directors of
BASIS Schools, Inc.
Scottsdale, Arizona

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of BASIS Schools, Inc. and subsidiaries (the Firm), a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of BDC, a Public Charter School, Inc. (BDC) and BTX Schools, Inc. (BTX), subsidiaries of the Firm, which statements reflect total assets constituting 2% of consolidated total assets, and total revenues and support constituting 18% of consolidated total revenues and support, as of and for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for BDC and BTX, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BASIS Schools, Inc. and subsidiaries as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in the year ended June 30, 2017, the Firm adopted new accounting guidance Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, which requires entities to present debt issuance costs in the Statement of Financial Position as a direct deduction from the related debt liability rather than as an asset. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedules are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of the Firm's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Firm's internal control over financial reporting and compliance.

Fester & Chapman, PLLC

January 31, 2018

BASIS SCHOOLS, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

| | |
|------------------------------|----------------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 18,426,690 |
| Due from government | 2,578,284 |
| Other receivables | 568,699 |
| Prepaid expenses, current | 4,659,324 |
| Prepaid debt service | 2,865,000 |
| Restricted cash, current | <u>7,338,265</u> |
| Total current assets | 36,436,262 |
| Noncurrent assets: | |
| Prepaid expenses, noncurrent | 829,428 |
| Restricted cash, noncurrent | 27,395,610 |
| Property and equipment, net | 193,711,669 |
| Deposits | <u>28,429</u> |
| Total noncurrent assets | <u>221,965,136</u> |
| Total assets | <u><u>\$ 258,401,398</u></u> |

LIABILITIES AND NET ASSETS (DEFICIT)

| | |
|--|----------------------------------|
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 8,025,816 |
| Accrued construction costs | 4,914,024 |
| Deferred revenue | 1,453,606 |
| Deposits held for others | 2,128,519 |
| Current maturities of long-term debt | <u>2,865,000</u> |
| Total current liabilities | 19,386,965 |
| Long-term debt, net | <u>271,167,535</u> |
| Total liabilities | 290,554,500 |
| Net assets (deficit): | |
| Unrestricted (deficit) | (37,063,553) |
| Temporarily restricted | <u>4,910,451</u> |
| Total net assets (deficit) | <u>(32,153,102)</u> |
| Total liabilities and net assets (deficit) | <u><u>\$ 258,401,398</u></u> |

The accompanying notes are an integral part of these statements.

BASIS SCHOOLS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|-------------------------------|-----------------------------------|-------------------------------|
| Revenue and support: | | | |
| State revenues | \$ 102,108,223 | | \$ 102,108,223 |
| Federal revenues | 1,488,171 | | 1,488,171 |
| Local revenues | 11,175,856 | \$ 5,873,543 | 17,049,399 |
| Net assets released from restrictions | <u>5,206,651</u> | <u>(5,206,651)</u> | |
| Total revenue and support | <u>119,978,901</u> | <u>666,892</u> | <u>120,645,793</u> |
| Expenses: | | | |
| Primary and secondary education | 107,082,573 | | 107,082,573 |
| General and administrative | 17,803,500 | | 17,803,500 |
| Fundraising | <u>533,656</u> | | <u>533,656</u> |
| Total expenses | <u>125,419,729</u> | | <u>125,419,729</u> |
| Change in net assets (deficit) before unrealized loss and write-off of loan issuance costs and prepayment penalties | (5,440,828) | 666,892 | (4,773,936) |
| Unrealized loss | (284,587) | | (284,587) |
| Write-off of loan issuance costs and prepayment penalties | <u>(4,105,155)</u> | | <u>(4,105,155)</u> |
| Change in net assets (deficit) | (9,830,570) | 666,892 | (9,163,678) |
| Net assets (deficit), beginning of year | <u>(27,232,983)</u> | <u>4,243,559</u> | <u>(22,989,424)</u> |
| Net assets (deficit), end of year | <u><u>\$ (37,063,553)</u></u> | <u><u>\$ 4,910,451</u></u> | <u><u>\$ (32,153,102)</u></u> |

The accompanying notes are an integral part of these statements.

BASIS SCHOOLS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

| | |
|--|-----------------------------|
| Cash flows from operating activities: | |
| Change in net assets (deficit) | \$ (9,163,678) |
| Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities: | |
| Depreciation | 5,968,909 |
| Amortization of loan issuance costs | 223,003 |
| Amortization of bond premium | (78,791) |
| Loss on disposal of assets | 18,448 |
| Write-off of loan issuance costs and prepayment penalties | 4,105,155 |
| Changes in: | |
| Due from government | 6,605,185 |
| Other receivables | 194,278 |
| Prepaid expenses | 2,717,571 |
| Deposits | 28,100 |
| Accounts payable and accrued expenses | 1,680,231 |
| Deferred revenue | 541,880 |
| Due to related party | (1,101,771) |
| Deposits held for others | 319,771 |
| Net cash provided by operating activities | <u>12,058,291</u> |
| Cash flows from investing activities: | |
| Funds used for prepaid debt service | (2,865,000) |
| Net withdrawals from restricted cash | 1,563,973 |
| Purchases of property and equipment | <u>(33,781,508)</u> |
| Net cash used in investing activities | (35,082,535) |
| Cash flows from financing activities: | |
| Proceeds from loans | <u>30,182,610</u> |
| Net cash provided by financing activities | <u>30,182,610</u> |
| Net increase in cash and cash equivalents | 7,158,366 |
| Cash and cash equivalents, beginning of year | <u>11,268,324</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 18,426,690</u></u> |
| <u>Supplemental disclosures</u> | |
| Cash paid during the year for interest expensed | \$ 12,274,983 |
| Cash paid during the year for interest capitalized | \$ 527,276 |
| Loan proceeds paid directly for prepaid interest and issuance costs | \$ 4,501,035 |
| Loan proceeds paid directly to refinance outstanding loans payable | \$ 32,001,408 |

The accompanying notes are an integral part of these statements.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS Schools, Inc. (the Firm), an Arizona not-for-profit organization, was formed in fiscal year 1998-99. The Firm provides educational services to students in kindergarten through twelfth grades. The Firm operates under charter contracts with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. Each school operates under its respective charter contract with the Arizona State Board for Charter Schools and is funded primarily through State Equalization assistance. BDC, a Public Charter School, Inc. (BDC) is a separate 501(c)(3) corporation established in the District of Columbia in fiscal year 2011-12, whose sole member/owner is the Firm. BTX Schools, Inc. (BTX) is a separate 501(c)(3) corporation established in Texas in fiscal year 2011-12, whose sole member/owner is the Firm. BBR Schools, Inc. (BBR) is a separate 501(c)(3) corporation established in Louisiana in fiscal year 2016-17, whose sole member/owner is the Firm. To efficiently manage the schools, the Firm entered into a management services agreement with BASIS Educational Group Inc. (BASIS.ed) on June 25, 2009.

The Firm has campuses at the following locations:

| School Name | First Year of Service | Grades served in 2016-2017 |
|--------------------------------------|-----------------------|----------------------------|
| BASIS School, Tucson Primary | 1998-99 | K-4 |
| BASIS School, Scottsdale | 2003-04 | 4-12 |
| BASIS School, Oro Valley | 2010-11 | 6-12 |
| BASIS School, Chandler | 2011-12 | 5-12 |
| BASIS School, Flagstaff | 2011-12 | 3-12 |
| BASIS School, Peoria | 2011-12 | 5-12 |
| BASIS School, Tucson North | 2012-13 | 5-12 |
| BASIS School, Phoenix | 2012-13 | 5-12 |
| BASIS School, Ahwatukee | 2013-14 | 4-12 |
| BASIS School, Mesa | 2013-14 | 3-12 |
| BASIS School, Oro Valley Primary | 2014-15 | K-5 |
| BASIS School, Prescott | 2014-15 | K-12 |
| BASIS School, Phoenix Central | 2014-15 | K-8 |
| BASIS School, Chandler Primary South | 2015-16 | K-4 |
| BASIS School, Goodyear | 2015-16 | 6-9 |
| BASIS School, Goodyear Primary | 2015-16 | K-5 |
| BASIS School, Scottsdale Primary | 2015-16 | K-3 |
| BASIS School, Chandler Primary North | 2016-17 | K-4 |
| BDC | 2012-13 | 5-12 |
| BTX | 2013-14 | 5-11 |

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

The significant accounting policies of the Firm are as follows:

Principles of Consolidation: Generally accepted accounting principles require the Firm to consolidate entities in which it has control and an economic interest when that control is evidenced through majority ownership or voting interests. The Firm is the sole member/owner of BDC, BTX, and BBR, therefore consolidation is required. The consolidated financial statements include the accounts of the Firm, BDC, BTX, and BBR. During the year ended June 30, 2017, BBR did not have any financial activity. All significant inter-organization balances and transactions have been eliminated in consolidation.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of *Not-for-Profit Entities*. The Firm is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Firm does not have any permanently restricted net assets at June 30, 2017.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions: The Firm follows the FASB ASC subtopic of *Revenue Recognition for Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support based on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 7).

Cash and Cash Equivalents: The Firm considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Due from Government: Due from government consists mainly of state approved payments to the Firm to operate the charter schools and federal grants passed through the State of Arizona. The Firm has never experienced any losses due to non-payment, expects none on the June 30, 2017 balances, and therefore has not established an allowance for uncollectibility.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Other Receivables: Other receivables consists of miscellaneous receivables due to the Firm that will be collected during the fiscal year subsequent to June 30, 2017.

Prepaid Expenses: Prepaid expenses consists of goods and/or services purchased before June 30, 2017 that are to be used subsequent to June 30, 2017.

Loan Issuance Costs: Loan issuance costs and origination fees are deferred and amortized over the term of the loans. During the year ended June 30, 2017, \$1,430,094 of loan issuance costs were written off as part of debt refinancing.

Property and Equipment: Property and equipment with an initial cost of \$300 or more and an estimated life of one year or more are capitalized. In addition, textbooks are always capitalized and considered a separate asset class. Assets are stated at cost. Depreciation and amortization is provided on the straight-line basis over the following estimated useful lives of the respective assets:

| | |
|-----------------------------------|---|
| Buildings and improvements | 40 years |
| Vehicles, furniture and equipment | 3-5 years |
| Textbooks | 3 years |
| Software | 3 years |
| Leasehold improvements | Lesser of the estimated useful life or remaining term of applicable lease |

Deferred Revenue: Deferred revenue represents amounts collected but not earned as of June 30, 2017.

Deposits Held For Others: Deposits held for others consists of student deposits required for the use of textbooks.

Advertising: Advertising costs are expensed as incurred and totaled \$439,484 for the year ended June 30, 2017.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

Income Taxes: The Firm and its subsidiaries are exempt from federal and state income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, which requires entities to present debt issuance costs in the Statement of Financial Position as a direct deduction from the related debt liability rather than as an asset. The School adopted the standard during the year ended June 30, 2017, and applied the standard to the 2017 Statement of Financial Position by reclassifying \$6,436,594 of debt issuance costs from long-term assets to long-term debt.

NOTE 3 - RESTRICTED CASH

Restricted cash consists of required deposits associated with the long-term debt (see Note 6). The tax and insurance funds shall be used to pay real property taxes and premiums for the required insurance policies. The debt service reserve funds shall be used if the Firm is unable to make payments when due. The project funds shall be used solely to complete construction on the new campuses. The bond funds shall be used to pay the interest coming due. The accounts are held by Bank of Arizona as trustee.

Restricted cash as of June 30, 2017 consisted of the following:

| | |
|------------------------------|----------------------|
| Debt service reserve funds | \$ 15,584,611 |
| Repair and replacement funds | 414,035 |
| Tax and insurance funds | 90,504 |
| Project funds | 16,725,023 |
| Bond funds | <u>1,919,702</u> |
| Total | <u>\$ 34,733,875</u> |

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Firm maintains its unrestricted cash with various financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. The Firm has not experienced any losses in such accounts and management believes it is not exposed to any significant risks related to these accounts.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 5 - PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2017 consists of the following:

| | |
|--------------------------------------|------------------------------|
| Land and improvements | \$ 50,977,876 |
| Buildings and leasehold improvements | 129,021,208 |
| Vehicles, furniture and equipment | 9,591,836 |
| Textbooks | 5,452,340 |
| Software | 5,291 |
| Construction in progress | <u>17,843,129</u> |
| Total | 212,891,680 |
| Less accumulated depreciation | <u>19,180,011</u> |
| Property and equipment, net | <u><u>\$ 193,711,669</u></u> |

Depreciation for the year ended June 30, 2017 totaled \$5,968,909.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2017:

Education Revenue Bonds (BASIS Ahwatukee, Series 2013) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$8,835,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated February 1, 2013. The loan matures over 30 years with an interest rate of 6.75%. Annual principal and interest payments vary, and principal payments range from a minimum of \$115,000 to a maximum of \$665,000, commencing on July 1, 2016. The loan proceeds were used by the Firm for the following purposes: (i) to pay the costs of acquiring, constructing, improving, and equipping facilities; (ii) to pay for capitalized interest; and, (iii) to pay loan issuance costs. The loan is secured by BASIS Ahwatukee's personal property and revenues, including revenues received from the State of Arizona under the BASIS Ahwatukee charter, and a deed of trust on real property located at the BASIS Ahwatukee site.

\$ 8,720,000

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS San Antonio, Series 2013A and 2013B) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$9,265,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated April 1, 2013. The loan matures over 30 years with an interest rate of 6.00% - 7.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$140,000 to a maximum of \$675,000, commencing on July 1, 2016. The loan proceeds were used by the Firm for the following purposes: (i) to purchase land and constructing, improving, and equipping a building; (ii) to pay for capitalized interest; and, (iii) to pay loan issuance costs. The loan is secured by the Firm's personal property, all lease payments payable by BTX to the Firm, and a deed of trust on real property located at the BTX San Antonio site.

9,125,000

Education Revenue Bonds (BASIS Mesa, Series 2013) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$7,815,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated May 1, 2013. The loan matures over 30 years with an interest rate of 6.00% - 6.50%. Annual principal and interest payments vary, and principal payments range from a minimum of \$110,000 to a maximum of \$570,000, commencing on July 1, 2016. The loan proceeds were used by the Firm for the following purposes: (i) to pay the costs of acquiring, constructing, improving, and equipping facilities; (ii) to pay for capitalized interest; and, (iii) to pay loan issuance costs. The loan is secured by BASIS Mesa's personal property and revenues, including revenues received from the State of Arizona under the BASIS Mesa charter, and a deed of trust on real property located at the BASIS Mesa site.

7,705,000

\$1,725,250 promissory note payable to the City of Goodyear dated December 23, 2014. The loan matures over 30 years at an interest rate of 3.26%. Annual interest only payments of \$54,613 are due through December 2024, and annual principal and interest payments of \$114,125 start in January 2025. The note matures in December 2044. The loan was used to purchase real property for BASIS Goodyear and BASIS Goodyear Primary and is secured by a deed of trust on real property.

1,675,250

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

\$5,000,000 promissory note payable to CLI Capital dated May 22, 2017. The loan accrues interest at 6.50%, with the total principal balance due upon maturity in September 2017. The loan is secured by a deed of trust on real property.

2,294,952

Education Revenue Bonds (BASIS, Series 2015A) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$89,140,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated March 1, 2015. The loan matures over 30 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$370,000 to a maximum of \$5,650,000 commencing on July 1, 2016. The loan proceeds were used by the Firm for the following purposes: to (i) refinance the costs of acquiring, constructing, improving and equipping, as applicable, the Chandler Campus, the Flagstaff Campus, the Oro Valley Campus, the Peoria Campus, the Phoenix Campus, the Scottsdale Campus, the Tucson North Campus and the Tucson Primary Campus by refunding all of the Series 2006 Bonds, Series 2007 Bonds, Series 2010 Bonds, Series 2010A Bonds, Series 2010B Bonds, Series 2010C Bonds, Series 2011 Bonds, Series 2012 Bonds and Series 2013 Bonds, (ii) finance the remaining costs of acquiring, constructing, improving and equipping the Goodyear Campus for use in connection with the operation of BASIS Goodyear and BASIS Goodyear Primary, (iii) finance the costs of acquiring additional equipment for use in connection with operation of BASIS Chandler Primary and BASIS Scottsdale Primary, (iv) fund a portion of a debt service reserve fund that will provide security for the Bonds, (v) pay capitalized interest on a portion of the Bonds, and (vi) pay certain issuance expenses related to the Bonds. The loan is secured by BASIS Tucson Primary, Scottsdale, Scottsdale Primary, Oro Valley, Chandler, Chandler Primary North, Flagstaff, Peoria, Phoenix, Tucson North, Goodyear, and Goodyear Primary's (the Obligated Schools) personal property and revenues, including revenues received from the State of Arizona under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. These Bonds were sold at a premium of \$1,341,705, which is included in the unamortized net premium.

88,770,000

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS, Series 2016A) were issued by the Industrial Development Authority of the City of Phoenix, Arizona in the aggregate principal amount of \$84,160,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated January 1, 2016. The loan matures over 30 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and principal payments range from a minimum of \$690,000 to a maximum of \$11,110,000, commencing on July 1, 2017. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping, as applicable, the Chandler Campus, the Chandler Primary North Campus, the Scottsdale Campus, the Scottsdale Primary Campus, and to refinance the BDC Campus and the Oro Valley Primary Campus (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds (iii) pay capitalized interest on a portion of the Bonds (iv) pay certain issuance expenses related to the Bonds. The loan is secured by the Obligated Schools personal property and revenues, including revenues received from the State of Arizona and the District of Columbia under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. These Bonds were sold at a premium of \$1,097,887, which is included in the unamortized net premium.

84,160,000

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS, Series 2017A and 2017B) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of \$75,960,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated February 1, 2017. The loan matures over 34 years with interest rates between 4.00% and 5.375%. Annual principal and interest payments vary, and principal payments range from a minimum of \$225,000 to a maximum of \$10,460,000, commencing on July 1, 2017. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping various campuses, and to refinance the Phoenix Central Campus, Prescott Campus, and the San Antonio North Central Campus (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds (iii) pay capitalized interest on a portion of the Bonds (iv) pay certain issuance expenses related to the Bonds. The loan is secured by the Obligated Schools personal property and revenues, including revenues received from the State of Arizona and the State of Texas under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites. These Bonds were sold at a discount of \$227,672, which is included in the unamortized net premium/discount.

| | |
|---------------------------------------|------------------------------|
| | <u>75,960,000</u> |
| Total | 278,410,202 |
| Plus unamortized net premium/discount | 2,058,927 |
| Less unamortized loan issuance costs | 6,436,594 |
| Less current maturities | <u>2,865,000</u> |
| | <u><u>\$ 271,167,535</u></u> |

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

The aggregate future minimum payments on long-term debt as of June 30, 2017, are as follows:

| | |
|---------------------------------------|-----------------------|
| Year ending June 30: | |
| 2018 | \$ 2,865,000 |
| 2019 | 4,045,000 |
| 2020 | 4,125,000 |
| 2021 | 4,280,000 |
| 2022 | 4,440,000 |
| Thereafter | <u>258,655,202</u> |
| | 278,410,202 |
| Plus unamortized net premium/discount | 2,058,927 |
| Less unamortized loan issuance costs | <u>6,436,594</u> |
| | <u>\$ 274,032,535</u> |

Under the loan agreements, the Firm is required to comply with certain financial covenants. At June 30, 2017 the Firm was in compliance with these covenants.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

The Firm received temporarily restricted contributions totaling \$5,873,543, and disbursed \$5,206,651 from these contributions during the year ended June 30, 2017, for extracurricular activities and the Annual Teacher Fund.

At June 30, 2017, \$4,910,451 remained in net assets temporarily restricted for the Annual Teacher Fund.

NOTE 8 - ECONOMIC DEPENDENCY

Approximately 70% of the Firm's revenue for the year ended June 30, 2017 was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on the Firm's revenues.

Approximately 71% of the Firm's total expenses for the year ended June 30, 2017 were paid to BASIS.ed.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: The Firm's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in adjustments or withholding of State Equalization assistance.

Commitments: The Firm has entered into agreements with BASIS.ed to provide charter school management, teaching services and administrative services for each of its schools, with various expiration dates through June 30, 2020. Under terms of the management agreement with BASIS.ed, the Firm incurred \$75,382,942 for leased employee costs and \$14,068,367 in management services fees, which is comprised of technology support, accounting, student enrollment and reporting, and new school development services. The fees are based on revenues and are adjusted for cost-of-living and growth in revenues in subsequent years.

During the fiscal year ending June 30, 2017, the Firm began construction and renovations to various campuses. As of June 30, 2017, the Firm had \$17,843,129 in construction in progress related to these campuses, with remaining commitments of approximately \$7,400,000 to complete the projects.

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, a member of the Board of Directors pledged \$900,000 to the Firm contingent upon the successful opening of BASIS Phoenix South for the 2017-2018 school year.

BASIS Schools, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

NOTE 11 - SUBSEQUENT EVENTS

The Firm has evaluated subsequent events through January 31, 2018, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2017 that would require an adjustment to the financial statements. However, the Firm did note the following transaction that occurred subsequent to the year end that should be disclosed:

On October 17, 2017 and December 21, 2017, Education Revenue Bonds (BASIS, Series 2017C through 2017G) were issued by the Arizona Industrial Development Authority in the aggregate principal amount of approximately \$108,000,000. The proceeds of the bonds were loaned to the Firm pursuant to loan agreements. The loans mature over 35 years with interest rates between 3.00% and 5.00%. Annual principal and interest payments vary, and commence on July 1, 2018. The loan proceeds were used by the Firm for the following purposes: to (i) finance the costs of acquiring, constructing, improving and equipping various campuses, and to refinance various campuses (ii) fund a portion of a debt service reserve fund that will provide security for the Bonds (iii) pay capitalized interest on a portion of the Bonds (iv) pay certain issuance expenses related to the Bonds. The loan is secured by the Obligated Schools personal property and revenues, including revenues received from the State of Arizona and the State of Texas under the Obligated Schools charters, and a deed of trust on real property located at the Obligated Schools sites.

SUPPLEMENTARY INFORMATION

BASIS SCHOOLS, INC.
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2017

| ASSETS | <u>BSI</u> | <u>BDC</u> | <u>BTX</u> | <u>Eliminations</u> | <u>Totals</u> |
|--|-----------------------|---------------------|---------------------|---------------------|-----------------------|
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 15,115,790 | \$ 1,485,045 | \$ 1,825,855 | | \$ 18,426,690 |
| Due from government | 1,167,888 | 18,110 | 1,392,286 | | 2,578,284 |
| Due from related party | | 28,225 | 122,159 | \$ (150,384) | |
| Other receivables | 276,612 | 55,558 | 236,529 | | 568,699 |
| Prepaid expenses, current | 4,379,214 | 33,761 | 246,349 | | 4,659,324 |
| Prepaid debt service | 2,865,000 | | | | 2,865,000 |
| Restricted cash, current | <u>7,338,265</u> | | | | <u>7,338,265</u> |
| Total current assets | <u>31,142,769</u> | <u>1,620,699</u> | <u>3,823,178</u> | <u>(150,384)</u> | <u>36,436,262</u> |
| Noncurrent assets: | | | | | |
| Prepaid expenses, noncurrent | 829,428 | | | | 829,428 |
| Restricted cash, noncurrent | 27,395,610 | | | | 27,395,610 |
| Property and equipment, net | 193,180,803 | 197,838 | 333,028 | | 193,711,669 |
| Deposits | <u>27,054</u> | <u>1,375</u> | | | <u>28,429</u> |
| Total noncurrent assets | <u>221,432,895</u> | <u>199,213</u> | <u>333,028</u> | | <u>221,965,136</u> |
| Total assets | <u>\$ 252,575,664</u> | <u>\$ 1,819,912</u> | <u>\$ 4,156,206</u> | <u>\$ (150,384)</u> | <u>\$ 258,401,398</u> |
| LIABILITIES AND NET ASSETS (DEFICIT) | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | \$ 6,673,849 | \$ 481,716 | \$ 870,251 | | \$ 8,025,816 |
| Accrued construction costs | 4,914,024 | | | | 4,914,024 |
| Deferred revenue | 1,450,875 | 2,731 | | | 1,453,606 |
| Due to related party | 150,384 | | | \$ (150,384) | |
| Deposits held for others | 2,128,519 | | | | 2,128,519 |
| Current maturities of long-term debt | <u>2,865,000</u> | | | | <u>2,865,000</u> |
| Total current liabilities | <u>18,182,651</u> | <u>484,447</u> | <u>870,251</u> | <u>(150,384)</u> | <u>19,386,965</u> |
| Long-term debt, net | <u>271,167,535</u> | | | | <u>271,167,535</u> |
| Total liabilities | <u>289,350,186</u> | <u>484,447</u> | <u>870,251</u> | <u>(150,384)</u> | <u>290,554,500</u> |
| Net assets (deficit): | | | | | |
| Unrestricted (deficit) | (41,198,646) | 1,173,191 | 2,961,902 | | (37,063,553) |
| Temporarily restricted | <u>4,424,124</u> | <u>162,274</u> | <u>324,053</u> | | <u>4,910,451</u> |
| Total net assets (deficit) | <u>(36,774,522)</u> | <u>1,335,465</u> | <u>3,285,955</u> | | <u>(32,153,102)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 252,575,664</u> | <u>\$ 1,819,912</u> | <u>\$ 4,156,206</u> | <u>\$ (150,384)</u> | <u>\$ 258,401,398</u> |

See independent auditors' report.

BASIS SCHOOLS, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

| | BSI | | | BDC | | |
|---|-------------------------------|----------------------------|-------------------------------|----------------------------|---------------------------|----------------------------|
| | Unrestricted | Temporarily Restricted | Subtotal | Unrestricted | Temporarily Restricted | Subtotal |
| Revenue and support: | | | | | | |
| State revenues | \$ 83,712,291 | | \$ 83,712,291 | \$ 8,682,799 | | \$ 8,682,799 |
| Federal revenues | 1,154,617 | | 1,154,617 | 167,363 | | 167,363 |
| Local revenues | 12,266,416 | \$ 5,231,636 | 17,498,052 | 212,536 | \$ 156,854 | 369,390 |
| Net assets released from restrictions | <u>4,545,493</u> | <u>(4,545,493)</u> | | <u>162,913</u> | <u>(162,913)</u> | |
| Total revenue and support | 101,678,817 | 686,143 | 102,364,960 | 9,225,611 | (6,059) | 9,219,552 |
| Expenses: | | | | | | |
| Primary and secondary education | 91,788,772 | | 91,788,772 | 8,676,468 | | 8,676,468 |
| General and administrative | 15,574,816 | | 15,574,816 | 552,482 | | 552,482 |
| Fundraising | <u>442,252</u> | | <u>442,252</u> | <u>48,233</u> | | <u>48,233</u> |
| Total expenses | <u>107,805,840</u> | | <u>107,805,840</u> | <u>9,277,183</u> | | <u>9,277,183</u> |
| Change in net assets (deficit) before unrealized loss and write-off of loan issuance costs and prepayment penalties | (6,127,023) | 686,143 | (5,440,880) | (51,572) | (6,059) | (57,631) |
| Unrealized loss | (284,587) | | (284,587) | | | |
| Write-off of loan issuance costs and prepayment penalties | <u>(4,105,155)</u> | | <u>(4,105,155)</u> | | | |
| Change in net assets (deficit) | (10,516,765) | 686,143 | (9,830,622) | (51,572) | (6,059) | (57,631) |
| Net assets (deficit), beginning of year | <u>(30,681,881)</u> | <u>3,737,981</u> | <u>(26,943,900)</u> | <u>1,224,763</u> | <u>168,333</u> | <u>1,393,096</u> |
| Net assets (deficit), end of year | <u><u>\$ (41,198,646)</u></u> | <u><u>\$ 4,424,124</u></u> | <u><u>\$ (36,774,522)</u></u> | <u><u>\$ 1,173,191</u></u> | <u><u>\$ 162,274</u></u> | <u><u>\$ 1,335,465</u></u> |

See independent auditors' report.

BASIS SCHOOLS, INC.
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2017
(CONTINUED)

| | BTX | | | Eliminations | Total | | |
|---|---------------------|---------------------------|---------------------|----------------|------------------------|---------------------|---------------------------|
| | Unrestricted | Temporarily Restricted | Subtotal | | Total | Unrestricted | Temporarily Restricted |
| Revenue and support: | | | | | | | |
| State revenues | \$ 9,713,133 | | \$ 9,713,133 | | \$ 102,108,223 | | \$ 102,108,223 |
| Federal revenues | 166,191 | | 166,191 | | 1,488,171 | | 1,488,171 |
| Local revenues | 2,028,317 | \$ 485,053 | 2,513,370 | \$ (3,331,413) | 11,175,856 | \$ 5,873,543 | 17,049,399 |
| Net assets released from restrictions | 498,245 | (498,245) | | | 5,206,651 | (5,206,651) | |
| Total revenue and support | 12,405,886 | (13,192) | 12,392,694 | (3,331,413) | 119,978,901 | 666,892 | 120,645,793 |
| Expenses: | | | | | | | |
| Primary and secondary education | 9,522,032 | | 9,522,032 | (2,904,699) | 107,082,573 | | 107,082,573 |
| General and administrative | 2,102,916 | | 2,102,916 | (426,714) | 17,803,500 | | 17,803,500 |
| Fundraising | 43,171 | | 43,171 | | 533,656 | | 533,656 |
| Total expenses | 11,668,119 | | 11,668,119 | (3,331,413) | 125,419,729 | | 125,419,729 |
| Change in net assets (deficit) before unrealized loss and write-off of loan issuance costs and prepayment penalties | 737,767 | (13,192) | 724,575 | | (5,440,828) | 666,892 | (4,773,936) |
| Unrealized loss | | | | | (284,587) | | (284,587) |
| Write-off of loan issuance costs and prepayment penalties | | | | | (4,105,155) | | (4,105,155) |
| Change in net assets (deficit) | 737,767 | (13,192) | 724,575 | | (9,830,570) | 666,892 | (9,163,678) |
| Net assets (deficit), beginning of year | 2,224,135 | 337,245 | 2,561,380 | | (27,232,983) | 4,243,559 | (22,989,424) |
| Net assets (deficit), end of year | <u>\$ 2,961,902</u> | <u>\$ 324,053</u> | <u>\$ 3,285,955</u> | <u>\$</u> | <u>\$ (37,063,553)</u> | <u>\$ 4,910,451</u> | <u>\$ (32,153,102)</u> |

See independent auditors' report.

BASIS SCHOOLS, INC.

OBLIGATED GROUP STATEMENT OF FINANCIAL POSITION

June 30, 2017

| | Obligated Group (Existing Members) ¹ |
|--|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 17,295,344 |
| Other current assets | <u>15,653,898</u> |
| Total current assets | 32,949,242 |
| Noncurrent assets: | |
| Property and equipment, net | 171,762,581 |
| Other noncurrent assets | <u>27,689,325</u> |
| Total noncurrent assets | <u>199,451,906</u> |
| Total assets | <u>\$ 232,401,148</u> |
| LIABILITIES AND NET ASSETS (DEFICIT) | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 9,982,952 |
| Other current liabilities | <u>6,041,901</u> |
| Total current liabilities | 16,024,853 |
| Long-term debt, net of current maturities | <u>246,659,765</u> |
| Total liabilities | 262,684,618 |
| Net assets (deficit) | <u>(30,283,470)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 232,401,148</u> |

(1) Represents the audited results of the Pledged Schools financed as part of the Series 2015, 2016, and 2017 Bonds.

See independent auditors' report.

BASIS SCHOOLS, INC.

OBLIGATED GROUP STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

| | Obligated Group (Existing Members) ¹ |
|--|---|
| Revenues: | |
| State revenues | \$ 87,256,538 |
| Federal revenues | 1,283,212 |
| Local revenues | <u>15,146,113</u> |
| Total revenue and support | 103,685,863 |
| Expenses: | |
| Salaries and payroll | 63,846,688 |
| Management fees | 12,028,741 |
| Other operating | 15,183,256 |
| Depreciation | 5,137,328 |
| Bond interest and amortization | <u>10,886,353</u> |
| Total expenses | <u>107,082,366</u> |
| Change in net assets (deficit) before non-recurring expenses | (3,396,503) |
| Non-recurring expenses ² | <u>(4,389,742)</u> |
| Change in net assets (deficit) | (7,786,245) |
| Net assets (deficit), beginning of year | <u>(22,497,225)</u> |
| Net assets (deficit), end of year | <u><u>\$ (30,283,470)</u></u> |

(1)Represents the audited results of the Pledged Schools financed as part of the Series 2015, 2016, and 2017 Bonds.

(2)Non-recurring expenses reflect accounting non-cash expensing of unrealized loss and certain debt issuance and refunding prepayment penalties/premiums related to the issuance of the 2015, 2016, and 2017 Bonds.

See independent auditors' report.

BASIS SCHOOLS, INC.
Single Audit Reporting Package
Year Ended June 30, 2017

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of
BASIS Schools, Inc.
Scottsdale, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of BASIS Schools, Inc. (the Firm), a nonprofit organization, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2018. Our report includes a reference to other auditors who audited the financial statements of BDC, a Public Charter School, Inc. and BTX Schools, Inc., as described in our report on the Firm's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Firm's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firm's internal control. Accordingly, we do not express an opinion on the effectiveness of the Firm's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Firm's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fester & Chapman, PLLC

January 31, 2018



**Independent Auditors' Report on Compliance For Each Major Program;
Report on Internal Control Over Compliance; Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

To the Board of Directors of
BASIS Schools, Inc.
Scottsdale, Arizona

Report on Compliance for Each Major Federal Program

We have audited BASIS Schools, Inc.'s (the Firm) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Firm's major federal programs for the year ended June 30, 2017. The Firm's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Firm's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Firm's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Firm's compliance.

Opinion on Each Major Federal Program

In our opinion, the Firm complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the Firm is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Firm's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Firm's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Firm as of and for the year ended June 30, 2017, and have issued our report thereon dated January 31, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Fester & Chapman, PLLC

January 31, 2018

BASIS Schools, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Pass- Through Grantor's Number</u> | <u>Expenditures</u> |
|---|------------------------|---|----------------------------|
| <u>U.S. Department of Education</u> | | | |
| Passed through Arizona Department of Education | | | |
| Special Education Cluster (IDEA): | | | |
| Special Education_Grants to States | 84.027 | Various | \$ <u>1,093,540</u> |
| Total Special Education Cluster | | | <u>1,093,540</u> |
| Charter Schools | 84.282 | Various | <u>61,077</u> |
| Total U.S. Department of Education | | | <u>1,154,617</u> |
| Total Expenditures of Federal Awards | | | <u>\$ <u>1,154,617</u></u> |

See accompanying notes to this schedule.

BASIS Schools, Inc.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of BASIS Schools, Inc. (the Firm), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the 2017 *Catalog of Federal Domestic Assistance Update*.

NOTE 3 - INDIRECT COST RATE

The Firm has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Firm did not pass any funds onto subrecipients during the year ended June 30, 2017.

BASIS Schools, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | | |
|---|------------|--------------------------------------|
| Type of Auditors' Report issued: | Unmodified | |
| | Yes | No |
| Material weaknesses identified in internal control over financial reporting? | _____ | _____ <u>X</u> _____ |
| Significant deficiencies identified not considered to be material weaknesses? | _____ | _____ <u>X</u> _____ (None reported) |
| Noncompliance material to the financial statements noted? | _____ | _____ <u>X</u> _____ |

Federal Awards

| | | |
|--|------------|--------------------------------------|
| Material weakness identified in internal control over major programs? | _____ | _____ <u>X</u> _____ |
| Significant deficiencies identified not considered to be material weaknesses? | _____ | _____ <u>X</u> _____ (None reported) |
| Type of auditors' report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | _____ | _____ <u>X</u> _____ |

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------|---|
| 84.027 | Special Education Cluster (IDEA): Special Education_Grants to States |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X _____

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with 2 CFR 200.511(b)? _____ X _____

BASIS Schools, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were identified that were required to be reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were identified that were required to be reported.

BASIS Schools - Scottsdale Primary

Legal Compliance Questionnaire

Year Ended June 30, 2017



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
BASIS Schools, Inc. Re. BASIS Scottsdale Primary (07-82-72-000)
Scottsdale, Arizona

We have performed the procedures enumerated below, which were agreed to by Arizona State Board for Charter Schools (the specified party), solely to assist you with respect to compliance of BASIS Schools, Inc. Re. BASIS Scottsdale Primary (07-82-72-000) (the Firm) as of and for the year ended June 30, 2017. The Firm's management is responsible for compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

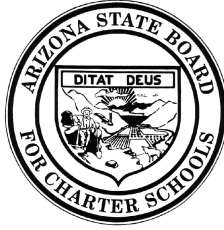
Our procedures and findings are included in the following 6/17 version of the Legal Compliance Questionnaire.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the Firm's compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Arizona State Board for Charter Schools and is not intended to be and should not be used by anyone other than those specified parties.

Fester & Chapman, PLLC

March 23, 2018



Arizona State Board for Charter Schools
Legal Compliance Questionnaire
Charter/CTDS: BASIS Scottsdale Primary (078272000)
Fiscal Year Ended: June 30, 2017

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INSTRUCTIONS

NOTE: This questionnaire should only be used for charters that are exempt from the Uniform System of Financial Records for Arizona Charter Schools (charters that HAVE an exception). If a charter is subject to procurement requirements pursuant to A.R.S. §§15-189.02 and 41-2535(A), this questionnaire should be used in conjunction with the Procurement Compliance Questionnaire (see audit guidelines) which is available on the Arizona State Board for Charter Schools' website <https://asbcs.az.gov>.

In order to determine whether a charter that is exempt from the requirements of the Uniform System of Financial Records for Arizona Charter Schools (USFRCS) is complying with applicable legal requirements, the auditors must complete the following Legal Compliance Questionnaire in accordance with both the agreed upon procedures (instructions contained herein) and the attestation standards established by the American Institute of Certified Public Accountants. (Note: This questionnaire is not comprehensive of all legal requirements for charter schools. As such, this document should not be the sole reference to determine all laws and regulations that are applicable to charter schools).

The following prescribed minimum agreed upon procedures, as well as those identified throughout the questionnaire, must be used for completing the Legal Compliance Questionnaire in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The State Board for Charter Schools may reject questionnaires not meeting these standards.

- ◆ Sufficient, appropriate evidence must be obtained annually for each question to satisfactorily determine whether the charter complies with the legal requirements, and the evidence must be included in the documentation.
- ◆ Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" answers to the questionnaire.
- ◆ Population size should be considered in determining the number of items to test, and the items selected should be representative of the population.
- ◆ The number of items tested must be sufficient to determine whether a deficiency was the result of an isolated incident or a recurring problem. Therefore, testing one transaction, record, or item is not sufficient.
- ◆ The sample size should be expanded if the audit firm cannot clearly determine whether the charter complies with the legal requirements of the question.

- ◆ If sufficient evidence has been obtained and documented during the current audit, that evidence may be referenced to answer questions.
- ◆ All “No” and “N/A” answers must be adequately explained in the comments column or in an attachment. Findings must be described in sufficient detail to enable the State Board for Charter Schools to describe the finding in a letter. The description should include the number of items tested and the number of exceptions noted.
- ◆ A “Yes” answer indicates that the audit firm has determined that the charter complies with the legal requirements of the question and a “No” answer indicates the charter does not comply. However, the final determination of compliance on each question, as well as overall compliance with legal requirements, is made by the State Board for Charter Schools based on the evidence presented in the questionnaire, audit reports, resulting documentation, and any other sources.

The resulting documentation supporting the audit firm’s answers to the Legal Compliance Questionnaire must be made available on request for review by the State Board for Charter Schools. To facilitate this review, the audit firm may wish to include in the documentation a copy of the questionnaire containing references to procedures performed for each question.

Legal Compliance Questionnaire¹

| Questions/Subject Area | Yes/No | Comments |
|--|--------|-------------------------|
| Personnel | | |
| 1. Did the school have valid fingerprint clearance cards (FCC) for 100% of the required personnel as of the testing date? A.R.S. §15-183 (C)(5) and A.R.S. §15-512 (H) | Yes | |
| (QUESTIONS #2a THROUGH 2c ONLY APPLY TO NEW HIRES REQUIRED PURSUANT TO A.R.S. §15-183(C)(5) TO HAVE VALID FCCS AND DO NOT APPLY IF AN INDIVIDUAL'S FCC HAS EXPIRED.) | | |
| 2. For each individual referenced in #1 that did not have a valid FCC, please provide the following information (provide supplemental pages, if necessary) (See agency guidance available on the Board's website prior to completing these questions) A.R.S. §15-183 (C)(5) : | | |
| a. Was an application for a FCC on file with the Department of Public Safety (DPS) as of the testing date? | N/A | All personnel had FCC's |
| b. Did DPS receive the application prior to the hire date? | N/A | All personnel had FCC's |
| c. Prior to placement, did the school do all of the following? | | |
| i) Document the necessity for hiring/placing the individual prior to receiving a FCC? | N/A | All personnel had FCC's |
| ii) Obtain statewide criminal history information on the individual? | N/A | All personnel had FCC's |
| iii) Obtain references from the applicant's current and previous employers? | N/A | All personnel had FCC's |
| 3. Did the charter school maintain up-to-date fingerprints of all Governing Body members as of the testing date? Charter Contract² | Yes | |
| 4. Were all other personnel fingerprint checked as of the testing date? A.R.S. §15-183 (C)(5) and A.R.S. §15-512 | Yes | |
| 5. Did the charter school inform the parents and guardians of pupils enrolled in the school of the availability of information about the educational and teaching background and experience in a particular academic content subject area for all current employees who provide instruction to pupils? A.R.S. §15-183 (F) | Yes | |

¹ For the purposes of this questionnaire, please note that "Governing Body" means the group of persons required by A.R.S. §15-183(E)(8) that is responsible for policy decisions of the charter school. The term "Governing Board" means the group of persons that the charter holder has assigned the responsibility addressed by the question. The applicable group of persons may be the Governing Body or the officers, directors, members or partners of the charter holder. The applicable group of persons may vary depending on the issue addressed by the question.

² Specific contract cites could not be provided as term references vary per contract year.

| Questions/Subject Area | Yes/No | Comments |
|---|--------|--------------------------------|
| Required Filings | | |
| 1. Is the school in good standing with the following regulatory bodies: a. Internal Revenue Service U.S.C. Title 26 | | |
| i. For payroll taxes, income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement. | Yes | |
| iii. If the response to 1.a.i, 1.a.ii, or both is "no", does the school have a payment plan in place with the Internal Revenue Service? | N/A | See questions i. and ii. above |
| iv. If the answer to Question 1.a.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)? | N/A | See question iii. above |
| b. Arizona Department of Revenue A.R.S. §43-401 and §43-1111 | | |
| i. For payroll taxes, state income taxes (if applicable) and applicable tax forms required to be filed during the audited fiscal year? | Yes | |
| ii. The school did not have any payroll or income taxes payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement. | Yes | |
| iii. If the response to 1.b.i, 1.b.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Revenue? | N/A | See questions i. and ii. above |
| iv. If the answer to Question 1.b.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)? | N/A | See question iii. above |
| c. Arizona Department of Economic Security A.R.S. § 23-721 et seq. | | |
| i. State unemployment contributions requirements for the audited fiscal year? | Yes | |
| ii. The school did not have any state unemployment contributions payable from a prior year(s) as of audited fiscal year end (June 30 th) is a true statement. | Yes | |
| iii. If the response to 1.c.i, 1.c.ii, or both is "no", does the school have a payment plan in place with the Arizona Department of Economic Security? | N/A | See questions i. and ii. above |
| iv. If the answer to Question 1.c.iii is "yes", has the school made all of the required payments under the payment plan as of audited fiscal year end (June 30 th)? | N/A | See question iii. above |

| Questions/Subject Area | Yes/No | Comments |
|--|------------|----------|
| d. Corporation Commission (e.g., annual report)? Charter Contract | Yes | |
| 2. Was a copy of the adopted budget submitted electronically to the Superintendent of Public Instruction no later than July 18 th ? A.R.S. §15-905 (E) and §15-183 (E)(6) | Yes | |
| 3. Was the Annual Financial Report (AFR) sent to the Superintendent of Public Instruction by October 15 th ? A.R.S. §15-183 (E)(6) and 15-904 (A) | Yes | |
| Special Education | | |
| 1. Is the staff the school uses to provide special education services (internal or contracted) certified in special education? | Yes | |
| 2. Does the school conduct 45 day screenings on all new students? AAC R7-2-401 | Yes | |
| 3. Are evaluations and IEPs on file for special education students? 34 CFR 300.341-350 and 300.531-536 | Yes | |
| Classroom Site Fund - A.R.S. §15-977 & OAG Memorandum No. 44 | | |
| 1. Did the school properly allocate Classroom Site Fund receipts among the following projects: 1011 – Base Salary (20%), 1012 – Performance Pay (40%), and 1013 – Other (40%)? | Yes | |
| 2. For Project 1011, were expenses only for teacher base salary increases and employment-related expenses? | Yes | |
| 3. For Project 1012, were expenses only for performance-based teacher compensation increases and employment-related expenses? | Yes | |
| 4. For Project 1013, were expenses only for class size reduction, teacher compensation increases, AIMS intervention programs, teacher development, dropout prevention programs, and teacher liability insurance premiums? | Yes | |
| 5. Did the school use Classroom Site Fund monies to supplement rather than supplant, existing funding from all other sources? (See USFRCS Memorandum No. 44 for guidance on the Classroom Site Fund.) | Yes | |
| 6. If the school had monies remaining at year-end, were they properly carried forward in the three Classroom Site Projects (1011, 1012, and 1013) to help ensure that the restrictions placed on the original allocation of revenues is applied in future years? | Yes | |
| 7. Did the school have sufficient cash at year-end to cover the carry over monies, and what was the Classroom Site Fund <u>cash</u> carryover balance at year-end? | Yes \$0 | |

| Questions/Subject Area | Yes/No | Comments |
|---|--------|-------------------------------|
| Student Attendance Reporting | | |
| If test work performed in this section discloses a net overstatement or understatement of membership and/or absence days, based on A.R.S. and ADE's membership and attendance guidelines, report the net overstatement or understatement in the "Comments" column next to each applicable question. | | |
| 1. Was school in session for at least 180 days or did the Governing Board adopt a calendar with an equivalent number of minutes of instruction per school year based on a different number of days of instruction? A.R.S. §15-341.01 | Yes | |
| 2. Did the school ensure that [A.R.S. §§15-808(J)(1) and 15-901(A)(1)]: (Note: Instructional hours do not include periods of the day in which an instructional program or course of study is not being offered, including, but not limited to, lunch, recesses, home room periods, study hall periods, and early release or late start hours.) ADE's External Guidelines GE-17 and GE-18 | | |
| a. Preschool children with disabilities were enrolled in a program that met at least 360 minutes a week that meets at least 216 hours over the minimum number of days? | N/A | No preschool children |
| b. Kindergarten was in session for at least 356 hours or 346 hours for Arizona Online Instruction (AOI) Programs? | Yes | |
| c. Grades 1 through 3 were in session for at least 712 hours? | Yes | |
| d. Grades 4 through 6 were in session for at least 890 hours? | N/A | School is grades K-3 |
| e. Grades 7 and 8 were in session for at least 1,000 hours or 1,068 hours for AOI Programs? | N/A | School is grades K-3 |
| f. Grades 9 through 12, other than AOI Programs, were in session at least 720 hours? | N/A | School is grades K-3 |
| g. Grades 9 through 12, other than AOI Programs, include at least four subjects, each of which if taught each school day for the minimum number of days required in a school year, would meet a minimum of 123 hours a year? | N/A | School is grades K-4 |
| h. Grades 9 through 12 of AOI Programs include at least four courses throughout the year that meet at least 900 hours during the school year? | N/A | Program not offered by school |
| For Student Attendance Reporting questions, the audit firm must select and test the specified number of transactions (records, entries, withdrawals, or days) as shown in the sample size instructions before each section. These samples should include 3 or more grade levels and 3 or more campuses, where applicable. The listed sample sizes represent the minimum level of required test work. The audit firm should use its judgment in determining whether a larger sample is needed. All student attendance records tested should be selected from the 100th day reporting period. | | |
| In the parentheses provided within the questions, write the actual number of transactions tested. If all transactions were tested, indicate such in the "Comments" column. | | |

| Questions/Subject Area | Yes/No | Comments | | | | | | | | |
|--|---------------------------------------|---------------------------------------|---------|---|---------------|----|---------|----|-----|--|
| <p>For questions 3-5 select at least 3 student attendance records.</p> <p>3. If the school had an early (pre-)kindergarten program, based upon review of 0 early (pre-) kindergarten students' attendance records, did the school only calculate and submit membership/absence information for this program for students with disabilities? A.R.S. §15-901(A)(1)(a)(i) and USFRCS Memorandum No. 33</p> | N/A | Program not offered by school | | | | | | | | |
| <p>4. Based upon review of 3 students' attendance records in kindergarten programs, if the instructional time for the year was between 356 and 692 hours, were students not in attendance for at least three-quarters of the day counted as being absent or, if the instructional time for the year was 692 hours or more, were students not in attendance at least one-half of the day counted as being absent? A.R.S. §§15-901(A)(1)(a)(i) and 15-901(A)(5)(a)(i)</p> | Yes | | | | | | | | | |
| <p>5. If the school had an early first grade program, based upon review of 0 early first grade students' attendance records, did the school calculate and submit membership/absence information for this program as it would for kindergarten? A.R.S. §§15-901(A)(1)(a)(i) and 15-901(A)(5)(a)(i), and USFRCS Memorandum No. 33</p> | N/A | Program not offered by school | | | | | | | | |
| <p>For questions 6 and 7, use the following sample sizes:</p> | | | | | | | | | | |
| <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;"><u>SCHOOLWIDE ADM</u></th> <th style="text-align: center;"><u>Student Attendance Records</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">< 1,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">1,000 - 5,000</td> <td style="text-align: center;">10</td> </tr> <tr> <td style="text-align: center;">> 5,000</td> <td style="text-align: center;">15</td> </tr> </tbody> </table> <p>6. Based upon review of 5 students' attendance records at elementary and junior high schools in which attendance was based on half days, were students in attendance for less than one-half the day counted as being absent for one full day; were students in attendance for at least one-half day, but less than three-quarters of a day, counted as being absent for one-half day; and were students in attendance for at least three-quarters of a day counted in attendance for a day? A.R.S. §15-901(A)(5)(b)(ii)</p> | <u>SCHOOLWIDE ADM</u> | <u>Student Attendance Records</u> | < 1,000 | 5 | 1,000 - 5,000 | 10 | > 5,000 | 15 | Yes | |
| <u>SCHOOLWIDE ADM</u> | <u>Student Attendance Records</u> | | | | | | | | | |
| < 1,000 | 5 | | | | | | | | | |
| 1,000 - 5,000 | 10 | | | | | | | | | |
| > 5,000 | 15 | | | | | | | | | |

| Questions/Subject Area | Yes/No | Comments | | | | | | | | |
|---|---------------------------------------|---|-------------------|----------|----------------------|----------|-------------------|----------|--|--|
| 7. Based upon review of 0 students' attendance records at elementary and junior high schools where attendance was based on quarter days, were students in attendance for more than three-quarters of the day counted in attendance for a day and students in attendance for three-quarters of the day or less counted in attendance for each quarter of the day in attendance? A.R.S. §15-901(A)(5)(b)(i) | N/A | Attendance is based on half days | | | | | | | | |
| For questions 8 through 15, use the following sample sizes: | | | | | | | | | | |
| <table border="0"> <tr> <td style="border-bottom: 1px solid black;">SCHOOLWIDE ADM</td> <td style="border-bottom: 1px solid black; text-align: center;">Student Attendance Records</td> </tr> <tr> <td style="text-align: center;">< 1,000</td> <td style="text-align: center;">3</td> </tr> <tr> <td style="text-align: center;">1,000 - 5,000</td> <td style="text-align: center;">5</td> </tr> <tr> <td style="text-align: center;">> 5,000</td> <td style="text-align: center;">7</td> </tr> </table> | SCHOOLWIDE ADM | Student Attendance Records | < 1,000 | 3 | 1,000 - 5,000 | 5 | > 5,000 | 7 | | |
| SCHOOLWIDE ADM | Student Attendance Records | | | | | | | | | |
| < 1,000 | 3 | | | | | | | | | |
| 1,000 - 5,000 | 5 | | | | | | | | | |
| > 5,000 | 7 | | | | | | | | | |
| 8. For schools approved to report minutes of attendance, based upon review of the attendance records for a 1 month period for 0 students whose attendance was reported in minutes, did the school report minutes of attendance only for actual classroom instruction attended by the students? | N/A | Attendance reported in terms of absences | | | | | | | | |
| 9. Based upon review of 0 high school students' attendance records, whose attendance was reported in terms of absences, for all absence days reported in a 1 month period, did the school report absences in accordance with the method(s) provided by ADE? | N/A | School is grades K-3 | | | | | | | | |
| 10. Based upon review of 0 high school students' attendance records, did the school prorate the membership of the students enrolled in less than four subjects? | N/A | No students enrolled in less than four subjects | | | | | | | | |
| 11. For students enrolled in a program provided by a JTED in a facility owned and operated by a school: a. For schools- Based on a review of 0 students' attendance records, did the school report the actual enrollment and attendance data for only the school classes the student was enrolled in at that school (excluding JTED program classes) under the school's CTDS number? | N/A | Program not offered by school | | | | | | | | |

| Questions/Subject Area | Yes/No | Comments |
|---|---|---|
| <p>b. For schools-Based on the review of 0 students' attendance records for all absence days reported in a 1 month period, did the school calculate absences in accordance with the method(s) provided by ADE <i>and</i> based on the number of school classes the student was enrolled in and attended (excluding JTED programs classes)?</p> <p>[Note: Total membership claimed for the school and the JTED satellite locations for each student should not exceed 1.25. A.R.S. §15-393(P)]</p> | N/A | Program not offered by school |
| <p>12. For schools offering an AOI Program, based upon a review of 0 AOI students' attendance records for 4 weeks: (ADE's Policies and Procedures Manual, SF-0003)</p> <p>a. Was the guardian-approved or school computer-generated daily log describing the amount of time spent by the student on academic tasks maintained by the participating AOI School? A.R.S. §15-808(E)</p> | N/A | Program not offered by school |
| <p>b. Did the hours reported to ADE agree to the guardian-approved or school computer-generated daily log?</p> | N/A | Program not offered by school |
| <p>c. Were all students who participated in an AOI Program, residents of this state? A.R.S. §15-808(B)</p> | N/A | Program not offered by school |
| <p>d. Was the student's Intended Full Time Equivalency Enrollment Statement maintained?</p> | N/A | Program not offered by school |
| <p>13. Based on review of the student's attendance records in question 12, did the school follow its procedures, to re-determine the actual FTE for each student enrolled in an AOI Program, following a student's withdrawal or after the end of the school year?</p> | N/A | Program not offered by school |
| <p>14. Based upon review of 0 students' attendance records (all grades) for students withdrawn for having ten consecutive unexcused absences, was the student only counted in membership through the last day of actual attendance or excused absence? A.R.S. §15-901(A)(1)</p> | N/A | No students withdrawn for having ten consecutive unexcused absences |
| <p>15. Based upon review of 5 students' attendance records, does the student's name entered in the student management system match the name on the legal document on file? A.R.S. §15-828(D)</p> | Yes | |
| For questions 16 and 17, use the following sample sizes: | | |
| <p style="text-align: center;"><u>SCHOOLWIDE ADM</u></p> <p style="text-align: center;">< 1,000</p> <p style="text-align: center;">1,000 - 5,000</p> <p style="text-align: center;">> 5,000</p> | <p style="text-align: center;"><u>Entries/Withdrawals</u></p> <p style="text-align: center;">5</p> <p style="text-align: center;">10</p> <p style="text-align: center;">15</p> | |

| Questions/Subject Area | Yes/No | Comments |
|--|--------|--|
| 16. Based upon review of 5 entries: (Note: Enrollment forms are not required for continuing students at the same school.) | | |
| a. Were the entry dates entered into the school's computerized attendance system within 5 working days after the actual date of entry and was documentation maintained to support the date of data entry? | Yes | |
| b. Did the entry date in the computerized attendance system agree to the entry form? | Yes | |
| c. Did the teacher's attendance registers, if used, and other documentation support the entry date in the computerized attendance system? | N/A | Attendance system is completely electronic |
| d. Did membership begin on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school? | Yes | |
| e. Did the school obtain and maintain verifiable documentation of Arizona residency upon enrollment? A.R.S. §15-802(B)(1) and ADE's Arizona Residency Documentation Guidelines | Yes | |
| f. If a student was a nonresident of Arizona, was the student excluded from the school's student count and state aid calculations? A.R.S. §15-823(K) | N/A | All are Arizona residents |
| g. If the school admitted students who were nonresidents of Arizona, was tuition charged, as applicable? A.R.S. §15-823 | N/A | All are Arizona residents |
| 17. Based upon review of 5 withdrawals: | | |
| a. Were the withdrawal dates entered into the school's computerized attendance system within 5 working days after the actual day of withdrawal and was documentation maintained to support the date of data entry? (Note: "Day of withdrawal" for determining timely data entry means: a. the later of the student's withdrawal date or the day the school is notified the student will not be returning; or b. the 10 th day of unexcused absence for students withdrawn for having ten consecutive unexcused absences.) | Yes | |
| b. Did the withdrawal date in the computerized attendance system agree to the withdrawal form? (Note: If the computerized attendance system requires the school to input the day following the withdrawal date for a student to be counted in membership through the last day of actual attendance or excused absence, the withdrawal date on the system should be the school day following the withdrawal date on the form.) | Yes | |

| Questions/Subject Area | Yes/No | Comments | | | | | | | | |
|---|-----------------------|--|---------|---|---------------|---|---|---|--|--|
| c. Did the teachers' attendance registers, if used, and other supporting documentation agree to the withdrawal date in the computerized attendance system? | N/A | Attendance system is completely electronic | | | | | | | | |
| d. Was an Official Notice of Pupil Withdrawal form prepared and retained for each withdrawal and signed by a school administrator? A.R.S. §15 827 | Yes | | | | | | | | | |
| <p>For question 18, use the following sample sizes:</p> <table border="1" data-bbox="191 485 919 632"> <thead> <tr> <th><u>SCHOOLWIDE ADM</u></th> <th><u>Days</u></th> </tr> </thead> <tbody> <tr> <td>< 1,000</td> <td>3</td> </tr> <tr> <td>1,000 - 5,000</td> <td>5</td> </tr> <tr> <td>5</td> <td>7</td> </tr> </tbody> </table> | <u>SCHOOLWIDE ADM</u> | <u>Days</u> | < 1,000 | 3 | 1,000 - 5,000 | 5 | 5 | 7 | | |
| <u>SCHOOLWIDE ADM</u> | <u>Days</u> | | | | | | | | | |
| < 1,000 | 3 | | | | | | | | | |
| 1,000 - 5,000 | 5 | | | | | | | | | |
| 5 | 7 | | | | | | | | | |
| 18. Based upon review of 0 days for various campuses, grades, and classes in the computerized attendance system, did the student absences from each day agree to the teachers' attendance registers, absence slips, or other supporting documentation, if used? | N/A | Attendance system is completely electronic | | | | | | | | |
| 19. Did the school have adequate electronic or manual controls in place to ensure that any changes to the original record of student attendance data were properly authorized and documented, including the names or identification numbers of the persons making and authorizing the changes? | Yes | | | | | | | | | |
| 20. Was the school's membership/absence information submitted to ADE electronically at least once every 20 school days for membership and 60 days for absence information through the last day of instruction (with the first 20 and 60 day periods beginning on the first day of school or the opening of SAIS or AzEDS, for current fiscal year data submission, whichever is later)? A.R.S. §§15-901(A)(1) and 15-1042(G) | No | See comment #1 | | | | | | | | |
| 21. Based upon review of the school's 100th day information uploaded to ADE (ADMS 75-1 or equivalent report in AzEDS), did the membership and absences agree to the school's computerized attendance system records? (Note: For an AOI Program, review year-end attendance information.) | Yes | | | | | | | | | |
| Open Meeting Law A.R.S. § 38-431.01 and § 38-431.02 (See also Attorney General Opinion I00-009) | | | | | | | | | | |
| 1. Did the school conspicuously post a statement on its website stating where all public notices of its meetings will be posted, including the physical and electronic locations? | Yes | | | | | | | | | |
| 2. Did the school post all public meeting notices on its website? | Yes | | | | | | | | | |
| 3. Did the school maintain a record of notices that includes a copy of each notice that was posted and information regarding the date, time and place of posting? | Yes | | | | | | | | | |

| Questions/Subject Area | Yes/No | Comments |
|---|--------|----------|
| 4. Were notices and agenda of public meetings posted at least 24 hours before the meeting? | Yes | |
| 5. Were written minutes prepared or a recording made of Governing Body meetings? | Yes | |
| Insurance Requirements A.R.S. §15-183(M) | | |
| Does the school have the required insurance for liability and property loss? | Yes | |
| Tuition A.R.S. §15-185 (B)(6) (See also Attorney General Opinion I98-007) | | |
| Did the school refrain from charging fees that may be considered tuition other than as provided for in A.R.S. §15-185(B)(6) [nonresidents]? | Yes | |
| Records Management | | |
| 1. Did the school retain records in accordance with the <i>General Retention Schedules for Education - K-12</i> published by the Arizona State Library, Archives and Public Records (based on the testing conducted during the course of the audit)? (www.azlibrary.gov/arm/retention-schedules) | Yes | |
| 2. Was adequate documentation retained to support amounts in the financial statements (if the school is not the primary reporting entity - was adequate documentation retained to support revenue and expenses in the charter school)? | Yes | |

This Questionnaire was completed in accordance with the minimum standards as set forth in the instructions on pages 2 and 3.

Fester & Chapman, PLLC

Audit Firm



Preparer's Signature (Audit Firm Representative)

March 23, 2018

Date

Director

Title

BASIS Scottsdale Primary (078272000)

June 30, 2017

Comments

1. The School had one instance during the year where it's membership/absence information was not submitted to ADE electronically at least once every 20 school days.