

BDC, A PUBLIC CHARTER SCHOOL, INC.

(AN AFFILIATE OF BASIS SCHOOL, INC.)

(BASIS D.C.)

WASHINGTON, DC

COMPARATIVE AUDIT REPORT

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

KENDALL, PREBOLA AND JONES

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The Board of Directors
BDC, A Public Charter School, Inc.
410 8th Street, NW
Washington, DC 20004

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of BDC, A Public Charter School, Inc., (a nonprofit organization and affiliate of BASIS School, Inc.) which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

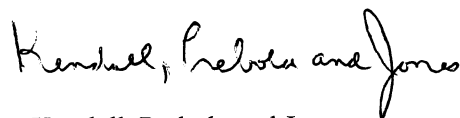
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BDC, A Public Charter School, Inc., (an affiliate of BASIS School, Inc.) as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses and schedules of average cost per student are presented for purposes of additional analysis and are 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 information is fairly stated in all material respects in relation to the 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 November 30, 2015, on our consideration of BDC, A Public Charter School, Inc.'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 the 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 BDC, A Public Charter School, Inc.'s internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 30, 2015

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 327,929	\$ 330,417
Accounts Receivable	48,464	888
Grants Receivable	83,967	380,378
Promises Receivable	750	-
Prepaid Expenses	<u>31,108</u>	<u>20,189</u>
Total Current Assets	\$ <u>492,218</u>	\$ <u>731,872</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	\$ <u>176,677</u>	\$ <u>193,503</u>
Total Fixed Assets	\$ <u>176,677</u>	\$ <u>193,503</u>
<u>Other Assets:</u>		
Deposits	\$ <u>4,805</u>	\$ <u>1,374</u>
Total Other Assets	\$ <u>4,805</u>	\$ <u>1,374</u>
TOTAL ASSETS	\$ <u>673,700</u>	\$ <u>926,749</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 73,787	\$ 35,979
Accrued Wages Payable	225,184	283,939
Due to Related Organizations	58,636	485,605
Refundable Advance on Grants	-	17,256
Deferred Revenues	<u>5,800</u>	<u>-</u>
Total Current Liabilities	\$ <u>363,407</u>	\$ <u>822,779</u>
Total Liabilities	\$ <u>363,407</u>	\$ <u>822,779</u>
<u>Net Assets:</u>		
Unrestricted	\$ 75,475	\$ 4,463
Board Designated	75,000	-
Temporarily Restricted	<u>159,818</u>	<u>99,507</u>
Total Net Assets	\$ <u>310,293</u>	\$ <u>103,970</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>673,700</u>	\$ <u>926,749</u>

(See Accompanying Notes and Auditor's Report)

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>			<u>June 30, 2014</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and Other Support:</u>						
Per Pupil Funding Allocation	\$ 7,729,457	\$ -	\$ 7,729,457	\$ 6,741,572	\$ -	\$ 6,741,572
Federal Entitlements and Grants	221,167	-	221,167	578,682	-	578,682
State Grants	36,306	-	36,306	27,056	-	27,056
Contributions	5,790	157,459	163,249	1,363	99,507	100,870
Student Activity Fees	173,336	-	173,336	101,364	-	101,364
Loss on Disposal of Fixed Assets	(2,600)	-	(2,600)	(5,975)	-	(5,975)
School Supply Sales	\$ -	\$ -	\$ -	\$ 12,873	\$ -	\$ 12,873
Less: Cost of Supplies	-	-	-	(7,992)	-	(7,992)
Net Student Supply Sales	\$ -	\$ -	\$ -	\$ 4,881	\$ -	\$ 4,881
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	97,148	(97,148)	-	82,210	(82,210)	-
Total Revenues and Other Support	<u>\$ 8,260,604</u>	<u>\$ 60,311</u>	<u>\$ 8,320,915</u>	<u>\$ 7,531,153</u>	<u>\$ 17,297</u>	<u>\$ 7,548,450</u>
<u>Expenses:</u>						
Educational Services	\$ 7,801,074	\$ -	\$ 7,801,074	\$ 7,383,691	\$ -	\$ 7,383,691
General and Administrative	290,975	-	290,975	366,938	-	366,938
Fundraising	22,543	-	22,543	14,432	-	14,432
Total Expenses	<u>\$ 8,114,592</u>	<u>\$ -</u>	<u>\$ 8,114,592</u>	<u>\$ 7,765,061</u>	<u>\$ -</u>	<u>\$ 7,765,061</u>
Changes in Net Assets	\$ 146,012	\$ 60,311	\$ 206,323	\$ (233,908)	\$ 17,297	\$ (216,611)
Net Assets, Beginning of Year	4,463	99,507	103,970	238,371	82,210	320,581
Net Assets, End of Year	<u>\$ 150,475</u>	<u>\$ 159,818</u>	<u>\$ 310,293</u>	<u>\$ 4,463</u>	<u>\$ 99,507</u>	<u>\$ 103,970</u>

(See Accompanying Notes and Auditor's Report)

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 206,323	\$ (216,611)
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows From Operating Activities:		
Depreciation	123,000	78,299
Loss on Disposal of Fixed Assets	2,600	5,975
Accounts Receivable - (Increase)/Decrease	(47,576)	110
Grants Receivable - (Increase)/Decrease	296,411	(169,029)
Promises Receivable - (Increase)/Decrease	(750)	-
Prepaid Expenses - (Increase)/Decrease	(10,919)	(9,467)
Deposits - (Increase)/Decrease	(3,431)	(674)
Accounts Payable - Increase/(Decrease)	37,808	(17,920)
Accrued Interest Payable - Increase/(Decrease)	-	(223)
Accrued Wages Payable - Increase/(Decrease)	(58,755)	140,606
Due to Related Organizations - Increase/(Decrease)	(426,969)	179,778
Refundable Advance on Grants - Increase/(Decrease)	(17,256)	17,256
Deferred Revenues - Increase/(Decrease)	<u>5,800</u>	<u>-</u>
Net Cash Flows From Operating Activities	<u>\$ 106,286</u>	<u>\$ 8,100</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (68,891)	\$ (113,747)
Purchase of Textbooks	<u>(39,883)</u>	<u>(56,667)</u>
Net Cash Flows From Investing Activities	<u>\$ (108,774)</u>	<u>\$ (170,414)</u>
<u>Cash Flows from Financing Activities:</u>		
Payments made on Loans	\$ -	\$ (50,000)
Net Cash Flows From Financing Activities	<u>\$ -</u>	<u>\$ (50,000)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ (2,488)	\$ (212,314)
Cash and Cash Equivalents at Beginning of Year	<u>330,417</u>	<u>542,731</u>
Cash and Cash Equivalents at End of Year	<u>\$ 327,929</u>	<u>\$ 330,417</u>

Supplemental Disclosures:

- a) No income taxes were paid during the years ended June 30, 2015 and 2014.
- b) Interest in the amount of \$268 was paid during the year ended June 30, 2014. No interest was paid during the year ended June 30, 2015.

(See Accompanying Notes and Auditor's Report)

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

BASIS DC - BDC, A Public Charter School, Inc., a District of Columbia Not-for-Profit Corporation - was incorporated on July 26, 2011, exclusively for educational purposes. The Public Charter School operates as part of the District of Columbia Public School System.

The mission of BASIS DC is to empower students to achieve at globally competitive levels with a transformative academic program.

In the heart of Washington DC, BASIS DC offers students a world-class education, one that matches or exceeds the best school systems in the nation, and the world. It is the type of education that American students need to compete in the global economy. BASIS DC operates on the principle that math, science, and the humanities are not disparate but complementary ways of communicating. BASIS DC believes that all students can study and achieve high level coursework, and that learning at high levels is a capability of all students, not just so-called gifted students. The BASIS DC curriculum, consistent with the highest international academic standards, is designed to help students develop academic and organizational skills that will be essential to their success throughout life. Most importantly, at BASIS DC, we provide students with a deep knowledge base and a passion for learning, which will motivate them to reach their highest academic potential and prepare them for the demands of college and the workforce.

BASIS DC opened in 2012 to Grades 5-8 in a wonderful school building near the National Portrait Gallery. BASIS DC has added a grade each year (serving grades 5-11 in August 2015), expanding until it serves Grades 5-12 in August 2016, mirroring the designed expansion of our renowned and nationally ranked sister campuses. Additionally, during the coming year, BASIS DC will be seeking a charter amendment in order to serve children in grades K-4 as well.

The BASIS DC middle school grades focus on establishing the deep knowledge base necessary to prepare for the demands of our college-preparatory curriculum. Students in grades 5-7 master the foundations of language, math, and science by taking courses in Latin, classics, physical geography, and drama, among others. They also take chemistry, biology, and physics as distinct disciplines beginning in 6th grade. In 7th grade our students begin studying a second language, are exposed to principles of formal logic to bolster critical thinking and problem-solving skills, and begin the journey towards Advanced Placement (AP) coursework.

The BASIS DC high school curriculum, beginning in 8th grade, is consistently ranked in the Top 10 high school programs in the country by *U.S. News & World Report* and *The Washington Post*, among other publications. Students in grades 8-11 take Advance Placement courses across the academic spectrum. By mastering a wide array of material, graduates of BASIS DC will establish themselves as prime candidates for the most selective institutions of higher learning and go on to become advanced scholars, professionals, and lifelong learners. Graduation requirements include passing six AP classes in math, English, science, social science and two elective AP's.

The School's primary sources of support are local appropriations for Charter Schools from the District of Columbia Government.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met.

Contributions and promises to give with donor imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Federal and Charter School Funding

BASIS DC receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. BASIS DC recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as a refundable advance.

Federal entitlements are recognized based on the allowable costs incurred.

Student Activity Fees

The Charter School offers fee-based extended day programming for students as well as various extra-curricular activities (chess club, taekwondo, photography, anime club, etc.). Activity fees are collected based on a monthly fee. Student activity fees are recognized as revenue when the activity occurs.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Corporate Taxes:

Federal Income Taxes

BASIS DC is exempt from federal income taxes (other than unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes has been provided for in the accompanying financial statements. The organization has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(1)(A)(ii). The school did not have any net unrelated business income for the year ended June 30, 2015.

District of Columbia Real Estate Taxes and Sales Tax

Pursuant to District of Columbia Code, effective March 1, 2012, the BASIS DC campus leased from BASIS School is exempt from real property taxation. In addition, BASIS DC was granted sales tax exemption on April 23, 2014.

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia Government. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustment has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05 (formerly SFAS No. 117), *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, the Charter School is required to report information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions. Board designated funds in the amount of \$75,000 as of June 30, 2015, were for the purpose of the Annual Teacher Fund.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Temporarily restricted net assets were available at year end for the following purpose:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual Teacher Fund	\$ 159,818	\$ 99,507
Total	<u>\$ 159,818</u>	<u>\$ 99,507</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, the passage of time, or by the occurrence of events specified by donors for the following activities:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual Teacher Fund	\$ 97,148	\$ 67,210
STARS Program	<u>-</u>	<u>15,000</u>
Total Released	<u>\$ 97,148</u>	<u>\$ 82,210</u>

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2015 or 2014.

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the BASIS DC Board of Directors is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the Statement of Activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs:

BASIS DC provides an academically excellent and rigorous liberal arts college preparatory education available to students in grades 5-11 during school year 2015-2016 in the District of Columbia, after expanding one grade each year until the school reaches grades 5-12, next year.

BASIS DC strives to serve students by helping them reach their highest academic potential by raising academic standards, employing teachers of the highest quality, and exceeding expectations for student support.

Creating and reinforcing a culture of academic excellence

The BASIS school culture makes high academic achievement and intellectual engagement the norm, and allows students to realize their own great academic potential. Simply put, we teach students to be curious, to ask questions without hesitation, and to learn to love learning.

Recruiting knowledgeable teachers

Hiring teachers with subject matter expertise is especially important at BASIS because teachers play a critical role in curriculum development and syllabi design. As a growing school, BASIS DC sought many diverse avenues to recruit the best and the brightest teachers through a variety of sources.

BASIS DC strives to create a culture of ongoing professional development in which teachers are accountable for improvement.

Training teachers for success

The BASIS model is unique in both curricular design and instructional method and it is very important that professionals who are well versed in the model guide the school.

Once prospective teachers are hired, they begin to prepare for the demands of the BASIS classroom and are supported in a variety of ways through our teacher training and mentoring programs. BASIS provides a summer training session for veteran faculty members throughout the BASIS network to share their knowledge of classroom management techniques, teaching methods, and pedagogical research with new teachers.

Throughout the school year BASIS DC teachers are partnered with a veteran Instructional Advisor. This advisor builds upon knowledge of classroom management techniques, teaching methods and pedagogical research that was reviewed in the summer training and helps them implement this in real time.

Teaching personal responsibility

BASIS aims to teach students that success is the result of hard work. Whether they are at the top of their class or struggling to keep pace with the demands of the BASIS curriculum, every BASIS student is supported and encouraged to improve and to reach for his or her highest academic potential.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Teaching personal responsibility (Continued)

Teaching students to take responsibility starts in middle school. Teachers focus on helping students build organizational skills, proper note-taking techniques, and good study habits.

Beginning in 6th grade, students are required to pass comprehensive exams in each core subject in order to progress to the next grade level. Comprehensive exams ensure students are prepared to advance to more difficult material. Knowing they will be held accountable for information, students take their education seriously and learn to own it.

As the school matures and students progress from one grade level to another, they become models for younger students and help reinforce the culture of personal responsibility and positive peer support.

For students that need additional support, BASIS DC provides an Academic Support Program. Academic support advisors work with identified students on specific interventions in the areas determined by assessment through breakout classes, small groups, and one on one. The academic support advisor will work individually and in small groups with identified students during non-academic periods within the school day. This may include time during the student's lunch period or before or after school.

Meeting our Mission

BASIS DC is striving every day to fulfill our mission to empower students to achieve at globally competitive levels with a transformative academic program -- and does so by serving students from across the District and by maintaining our high academic standards and uniquely successful academic program.

Our Students

Our students are at the core of everything we do at BASIS DC. They are the reason the school exists, the reason we hire bright, passionate teachers who are experts in their fields, and the reason we study and improve our own methods and curriculum year after year. We want to maintain the highest teaching standards for our students -- so they can achieve at the highest levels, year in and year out.

Our Teachers

BASIS places a strong emphasis on ensuring our teachers are of the highest academic caliber and have deep subject matter knowledge of the area that they will teach. In addition to being Highly Qualified:

- 100% of all BASIS DC academic teachers have a Bachelor's degree.
- 67.6% of all BASIS DC teaching faculty hold a Master's degree.
- 14.7% of all BASIS DC teaching faculty hold a Doctorate degree.
- 29.4% of all BASIS DC teaching faculty earned their Bachelor's degree from a Washington DC based university.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Curriculum

The curriculum for grades 5-7 is consistent with the highest international academic standards and is designed to help students develop academic and organizational skills that prepare them for the demanding BASIS Upper School curriculum. By introducing high-level content standards in lower grade levels, BASIS DC helps to ensure students are exposed to these concepts early and often and have mastered the material by the time they enroll in the Honors and AP-level courses. In its first year of operation BASIS DC's 5th grade students started with nine separate classes including Intro to Science, Physical Geography, Math, English, Latin, Classics, Art, PE, and Music. In 6th-8th grades students began taking Biology, Chemistry, and Physics as separate subjects, like many top-performing peers in European and Asian countries.

(h) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities and fundraising costs relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for leased employee salaries are allocated based on job descriptions and management's estimates of time spent on particular activities. Personnel expenses for leased employees are divided into employee categories (teachers, clerical, other educational staff, etc.) and then a percentage of time devoted to program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses such as the benefits and payroll taxes incurred on leased employee wages are allocated based on the weighted average allocation of the direct leased salaries.

For other expenses where it would not be appropriate to designate 100 percent as a program service cost, general and administrative cost, or fundraising cost, the allocation formula for personnel expenses is utilized for cost allocation purposes.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(i) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Fundraising:

During the years ended June 30, 2015 and 2014, expenses incurred for the purpose of fundraising were \$22,543 and \$14,432, respectively.

(k) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued wages payable.

(l) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

(m) Advertising Costs:

Advertising costs are expensed when incurred. Advertising activities were conducted for the purpose of promoting open enrollment to the school and to provide outreach to the community. Direct advertising costs in the amount of \$7,643 and \$881 were incurred during the years ended June 30, 2015 and 2014, respectively.

(n) Reclassifications:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB ASC No. 740-10 [formerly Interpretation No. 48 (FIN 48)], *Accounting for Uncertainty in Income Taxes*, which is an interpretation of ASC 740's (formerly SFAS No. 109), *Accounting for Income Taxes*. FASB ASC No. 740-10 clarifies the accounting for uncertainty in income taxes recognized in Basis DC's financial statements in accordance with ASC 740's and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC No. 740-10 requires the evaluation of tax positions taken or expected to be taken in the course of preparing Basis DC's tax return to determine whether the tax positions have a "more-likely-than-not" probability of being sustained by the applicable tax authority.

BASIS DC performed an evaluation of uncertain tax positions for the year ended June 30, 2015, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2015, the statute of limitations for the tax years 2011 through 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the organization files tax returns. It is the School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2015, the School had no accruals for interest and/or penalties.

3. CASH AND CASH EQUIVALENTS:

Cash at June 30, 2015 and 2014 totaled \$327,929 and \$330,417, respectively, and consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Non-Interest Bearing Checking Accounts	\$ 327,929	\$ 330,417
Total	<u>\$ 327,929</u>	<u>\$ 330,417</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

BASIS DC maintains its operating funds in one financial institution. These checking accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with all interest-bearing deposits and the combined total is insured up to \$250,000.

As of June 30, 2015 and 2014, \$92,502 and \$142,975, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. BASIS DC was at risk for the funds held in excess of the insured amounts. The organization has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

4. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable:

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2015 and 2014 consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 23,562	\$ -
Activity Fees	19,078	-
Related Organization	4,891	-
Reimbursable Expenses	<u>933</u>	<u>888</u>
Total	<u>\$ 48,464</u>	<u>\$ 888</u>
<u>Grants Receivable</u>		
Individuals with Disabilities Education Act (IDEA 611)	\$ 28,856	\$ 29,955
Elementary and Secondary Education Act (Title II)	19,099	5,321
Technology Schools Fund	25,077	-
National School Lunch Program	10,935	12,434
Elementary and Secondary Education Act (Title I)	-	100,592
Charter Schools Planning and Implementation Grant (Title Vb)	<u>-</u>	<u>232,076</u>
Total	<u>\$ 83,967</u>	<u>\$ 380,378</u>

The Organization's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the School does not require collateral, it is at credit risk for amounts owed to it throughout the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required, based on its evaluation of collectability of receivables for the years ended June 30, 2015 and 2014.

Trade receivables related to program service fees (activity fees, meals, etc.) are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable once management determines that available collection efforts have been exhausted.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

4. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Promises Receivable:

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give. Balances at year end consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Annual Teacher Fund	\$ 250	\$ -
Other - Unrestricted	<u>500</u>	<u>-</u>
Total Promises Receivable	<u>\$ 750</u>	<u>\$ -</u>

The above unconditional promises receivable are all due to be received in less than one year.

5. FIXED ASSETS:

Furniture, equipment and textbooks are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$300 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful lives of the assets. Textbooks with an estimated life of one year or more are capitalized. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended June 30, 2015 and 2014 was \$123,000 and \$78,299, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

<u>June 30, 2015</u>				
	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Textbooks	3 Years	\$ 157,824	\$ 112,735	\$ 45,089
Furniture and Equipment	3-5 Years	187,365	103,732	83,633
Computers	3 Years	<u>73,584</u>	<u>25,629</u>	<u>47,955</u>
Total		<u>\$ 418,773</u>	<u>\$ 242,096</u>	<u>\$ 176,677</u>
 <u>June 30, 2014</u>				
	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Textbooks	3 Years	\$ 121,575	\$ 62,161	\$ 59,414
Furniture and Equipment	3-5 Years	146,055	51,821	94,234
Computers	3 Years	<u>51,116</u>	<u>11,261</u>	<u>39,855</u>
Total		<u>\$ 318,746</u>	<u>\$ 125,243</u>	<u>\$ 193,503</u>

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

6. DUE TO RELATED ORGANIZATIONS:

As of June 30, 2015 and 2014, amounts due and payable to related organizations are as follow:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
BASIS Educational Group	\$ 44,473	\$ 305,456
BASIS Schools	1,880	180,149
BASIS San Antonio	<u>12,283</u>	<u>-</u>
Total	<u>\$ 58,636</u>	<u>\$ 485,605</u>

7. LOAN PAYABLE:

BASIS School, Inc.:

On October 12, 2011, BASIS DC entered into a loan with BASIS School in the amount of \$50,000 for the purpose of assisting in the start-up of the organization. This note bears interest at a rate of twenty-six one hundredths of one percent (.26%) per annum and is payable in full at loan maturity. Original maturity was scheduled to be payable on or before the date BASIS DC was provided local or federal funding based on student enrollment, however maturity was subsequently extended to November 15, 2013. As collateral for this loan, BASIS School was granted a first priority security interest in all of BASIS DC's equipment, goods, accounts and personal property. Interest expense related to the loan for the year ended June 30, 2014, was \$45. This loan was paid in full during the year ended June 30, 2014.

8. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the School's fiscal management and academic acceptability. The contract dated July 1, 2012, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about January 1, 2027. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that BASIS DC is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the BASIS DC charter every five years, with the first such review scheduled for 2017. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. Consequently, management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2015 and 2014, the Charter School incurred \$81,321 and \$37,243, respectively, in administrative fees.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

8. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT: (Continued)

The charter contract provides that BASIS DC may initially educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The School enrollment ceiling for the year ended June 30, 2015, was not permitted to be greater than 582 students. Audit enrollment for the 2014/2015 year was 551 students and for the 2013/2014 year was 510 students.

9. PER-PUPIL FUNDING ALLOCATION:

The School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2015, the per-student rate ranged from \$9,492 to \$11,580 for the educational allotment and \$3,072 for the facility allotment. For the year ended June 30, 2014, the per-student rate ranged from \$9,306 to \$10,795 for the educational allotment and \$3,000 for the facility allotment. Additional allotments were made for Special Education services and English as a Second Language. Per-pupil funding for the years ended June 30, 2015 and 2014 was as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Grade Level 5 th - 10 th Grade	\$ 5,606,545	\$ 4,889,012
Special Education	286,789	314,184
At Risk Students	143,451	-
English as a Second Language	-	8,376
Facilities Allowance	<u>1,692,672</u>	<u>1,530,000</u>
Total	<u>\$ 7,729,457</u>	<u>\$ 6,741,572</u>

10. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2015 and 2014, BASIS DC participated in multiple federal award programs. Federal revenues recognized during the years ended June 30, 2015 and 2014 was as follows:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Individuals with Disabilities Education Act (IDEA 611)	\$ 83,546	\$ 60,961
Elementary and Secondary Education Act (Title I)	40,153	110,526
Elementary and Secondary Education Act (Title II)	60,506	69,939
National School Lunch Program	36,962	59,646
Charter Schools Planning and Implementation Grant (Title Vb)	<u>-</u>	<u>277,610</u>
Total	<u>\$ 221,167</u>	<u>\$ 578,682</u>

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

10. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

Federal formula grants are allocations of money to States or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of the State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

11. COMMITMENTS:

Office Lease - 410-412 Eighth Street:

BASIS DC entered into a lease agreement on February 29, 2012, with BASIS School for the rental of office space located at 410-412 Eighth Street, NW, Washington, DC. The lease term is effective for a three hundred and sixty-four (364) month period beginning on February 29, 2012, and expiring on June 30, 2042, with rent payments commencing on November 21, 2012. Base rent payments have been defined as the amount equal to the amount the Lessor is obligated to pay for the debt service of the loans on the occupied property as well as any other taxes, insurance etc. on the leased property. Once the debt is retired, monthly payments will be calculated at the previous year's debt service payment adjusted annually based on the Consumer Price Index. Monthly required base lease payments at June 30, 2015, were \$166,250. Included in the lease is an option to extend for one additional consecutive ten-year period through June 30, 2052. As of June 30, 2014, an amount of \$166,250 was payable to BASIS School for the June 30th rental payment. Rent expense related to this lease for the years ended June 30, 2015 and 2014 was \$1,995,000 and \$1,977,500, respectively.

As of June 30, 2015, future minimum rental obligations required for the next five years under this lease solely as it relates to funding the debt service is as follows:

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>
2016	\$ 1,995,000
2017	2,082,500
2018	2,100,000
2019	2,100,000
2020	<u>2,100,000</u>
Total	<u>\$ 10,377,500</u>

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

11. COMMITMENTS: (Continued)

Apartment Lease Virginia:

BASIS DC entered into a rental lease agreement with PR Carlyle LLC for the rental of an apartment located at 800 John Carlyle Street, Alexandria, Virginia. The rental lease was effective for a one-year period commencing on July 17, 2013 and expiring on June 16, 2014. As a requirement of this lease, a rental security deposit of \$300 was made, as well as an additional rental payment of \$500 for the right to use the common areas of the complex. This lease called for monthly lease payments in the amount of \$1,960. Rent expense for the year ending June 30, 2014, was \$20,961. This lease was terminated effective June 16, 2014.

Photocopier Lease:

The Charter School entered into an operating lease with Konica Minolta Business, on July 31, 2012, for the rental of a three BIZHUB 751 Photocopiers. This lease calls for twenty (20) quarterly payments of \$1,145, commencing on July 31, 2012. Rental expense for the years ending June 30, 2015 and 2014 was \$4,582 and \$4,587, respectively.

Future minimum payments due under this lease are as follows:

<u>Year Ended June 30,</u>	
2016	\$ 4,582
2017	4,582
2018	<u>382</u>
Total	<u>\$ 9,546</u>

Photocopier Lease:

The Charter School entered into an operating lease with United Business Technologies, on April 2, 2015, for the rental of a three Cannon Image Runner Advance 8295 photocopier. This lease calls for thirty-six (36) monthly payments of \$564. Rental expense for the year ending June 30, 2015 was \$1,691.

Future minimum payments due under this lease are as follows:

<u>Year Ended June 30,</u>	
2016	\$ 6,764
2017	6,764
2018	<u>5,073</u>
Total	<u>\$ 18,601</u>

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

12. GUARANTEE OF INDEBTEDNESS:

Educational Capital Solutions, LLC -

BASIS Schools entered into a note payable in the amount of \$19,320,000 with Educational Capital Solutions, LLC dated February 29, 2012. Interest-only payments at rates ranging from 9% - 11.50% are due monthly, with a balloon payment due for the outstanding principal and unpaid interest balances in September 2032. The loan proceeds were used to purchase and retrofit the campus for BASIS DC. This loan is secured by an assignment of the lease agreement and a deed of trust granting the first position lien on and security interest in the BASIS DC campus and through an assignment of the District of Columbia per pupil funding received by BASIS DC.

BASIS Schools entered into a second note payable in the amount of \$1,680,000 with Educational Capital Solutions, LLC dated February 29, 2012. Interest-only payments at rates ranging from 9% - 11.50% are due monthly, with a balloon payment due for the outstanding principal and unpaid interest balances in September 2032. The loan proceeds were used to purchase and retrofit the campus for BASIS DC. This loan is secured by an assignment of the lease agreement and a deed of trust granting the first position lien on and security interest in the BASIS DC campus and through an assignment of the District of Columbia per pupil funding received by BASIS DC.

410 Eighth Street, LLC -

BASIS Schools entered into a third note payable in the amount of \$5,000,000 with 410 Eighth Street, LLC (the original owner of the building) dated February 29, 2012. This is a fifteen (15) year seller financed noninterest bearing note issued in connection with the acquisition of a building for the BASIS DC campus with maturity in September 2029, less unamortized discount based on an imputed interest rate of 9.00%. Payments of \$100,000 commenced on September 1, 2015. Thereafter, annual payments are required as follows: \$100,000 during each of 2015 through 2017; \$200,000 during each of 2018 through 2020; \$400,000 during 2021 through 2024 and \$500,000 during each of 2025 through 2029. This loan may be prepaid at any given time without restriction or penalty. The loan is secured by a second deed of trust on real property and through assignment of the District of Columbia per pupil funding received by BASIS DC.

Credit Card Account -

BASIS DC utilizes a Visa credit card issued by Wells Fargo Bank for purchases related to the organization's activity. The credit card is issued in the name of the School with a credit limit of \$25,000. Expenditures charged to this credit card are guaranteed by BASIS DC Public Charter School.

13. RELATED PARTY TRANSACTIONS:

Organization Structure:

As enacted by the Articles of Incorporation, BASIS DC has a sole member with voting rights as well as other rights and privileges as authorized by its governing documents. The sole member is BASIS Schools, a separately incorporated Arizona not-for-profit 501(c)(3) organization that operates multiple charter schools. Michael Block, an authorized agent for BASIS DC, was a board member of BASIS School throughout the fiscal year. As a board member of BASIS School, as well as having voting rights with BASIS DC, Mr. Block could influence the financial and operational activities of BASIS DC through voting authority. However, his voting rights did not constitute a majority of the Board of Directors and Mr. Block recused himself from all votes involving BASIS Schools.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS: (Continued)

School Management Contract:

Michael Block is a shareholder of BASIS Educational Group (BEG), an Arizona corporation that was formed for the purpose of providing comprehensive educational and support services including management services and operational services to charter schools. BASIS DC entered into a service agreement with BASIS Educational Group effective October 5, 2011, and through the period of June 30, 2014, unless renewed or extended by mutual agreement. A new service agreement was entered into that was effective on July 1, 2014, and is renewable annually for up to a period of 12 years of renewals. During the year ended June 30, 2015, BASIS DC incurred expenses in the amount of \$890,616 for management fees and \$4,012,543 for leased employee wages and related benefits. During the year ended June 30, 2014, BASIS DC incurred expenses in the amount of \$1,518,561 for management fees and \$3,095,631 for leased employee wages and related benefits. As of June 30, 2015 and 2014, \$6,561 and \$278,937, respectively, was payable to BEG for management fees. In addition, \$225,184 and \$283,939, respectively, was payable to BEG for accrued leased employee wages and benefits and has been reflected as Accrued Wages Payable in the financial statements at June 30, 2015 and 2014.

BASIS Educational Group owns the trademarks including the BASIS logo. As a provision to the management services agreement, BASIS DC is permitted to utilize these trademarked items.

Board of Directors:

The Board Chairperson of BASIS DC is also the Board Chairperson of BASIS School. In addition, two of the BASIS DC board members serve together in a business capacity with a separate and unrelated not-for-profit 501(c)(3) corporation.

Two of the trustees appointed to serve on the board of directors are parents of students attending the BASIS DC charter school. Parent trustees are elected by a majority vote of the board members from a list of qualified individuals submitted to the board by an advisory committee.

Contributions:

During the year ended June 30, 2015, various board members and employees of BASIS DC gave contributions to the Organization in the amount of \$4,300.

14. BOOSTER ORGANIZATION:

The Basis DC Boosters was incorporated and formed for the purpose of supporting the BASIS DC Public Charter School. Exemption was granted from the Internal Revenue Service to form as a 501(c)(3) supporting organization within the meaning of 509(a)(3) of the Internal Revenue Code, effective February 22, 2012. The Basis DC Boosters organization seeks support through fundraising and volunteerism and proceeds generated are donated to BASIS DC to fund the Annual Teacher Fund. This fund is instrumental in supporting the efforts to recruit and retain high quality teachers. During the year ended June 30, 2015, the Boosters organization provided a donation to BASIS DC in the amount of \$73,000 to be deposited and utilized in the Annual Teacher Fund.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

15. CONCENTRATIONS:

Revenues:

BASIS DC receives public funds from the DC government based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During the years ended June 30, 2015 and 2014, ninety-three percent (93%) and eighty-nine percent (89%), respectively, of total support was received from the District of Columbia in the form of per pupil funding. In addition to the revenue received through the Uniform Per Student Funding, BASIS DC receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education), as well as the U.S. Department of Agriculture (Child Nutrition). BASIS DC is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DC PCSB).

BASIS DC is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

16. CONTINGENCIES:

BASIS DC was granted its charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. BASIS DC has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding funds) could adversely affect the School's ability to finance ongoing operations.

The School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the School. While the School's board of directors and management believes the School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. BASIS DC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operations of public charter schools.

17. SUBSEQUENT EVENTS:

Financial Statement Preparation:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 30, 2015, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

17. SUBSEQUENT EVENTS: (Continued)

Enrollment:

Anticipated enrollment for the 2015/2016 school year is five hundred and ninety-nine (599) students. These enrollment numbers are up from the current audit enrollment number of five hundred and fifty-one (551) students during the 2014/2015 school year.

18. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Rent	\$ 1,995,000	\$ 1,977,500
Insurance - Building	45,175	42,031
Janitorial Services/Supplies	120,912	120,800
Maintenance and Repairs	56,396	44,312
Utilities	102,279	70,690
Security	<u>1,901</u>	<u>5,126</u>
Total	<u>\$ 2,321,663</u>	<u>\$ 2,260,459</u>

19. RETIREMENT PLAN:

401(k) Retirement Plan:

Pension benefits for the leased employees of BASIS DC are provided through a defined contribution 401(k) retirement plan sponsored by BASIS Educational Group and administered by Transamerica. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for the employees to contribute up to the statutory limits set by the Internal Revenue Code.

The School is required to make employer non-elective safe harbor contributions of 3% of annual employee compensation for employees with more than six months of employment. Participants are 100% vested in their contributions and the 3% employer safe harbor contribution. Authorized entry dates into the plan are January 1st and July 1st following the date that the eligibility requirements are met. In addition, there is a discretionary contribution determined on an annual basis separated into two separate tiers dependent upon length of service. For employees with less than fifty-eight (58) months of service, employer contributions are equal to 1/2% of eligible compensation for each 1% the employee contributes above 3% up to a maximum total employer contribution of 4%. For those employees with fifty-eight (58) months or more, the employer will provide a match contribution up to a maximum total employer contribution of 9%.

BDC, A PUBLIC CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

20. CONSOLIDATION:

Management has applied principles of FASB ASC 958-810 (formerly Statement of Position No. 94-3), *Reporting of Related Entities by Not-for-Profit Organizations*, in assessing the need to consolidate the financial statements of BASIS DC with those of BASIS School. Under FASB ASC 958-810, consolidation should occur if both an economic interest between the organizations and control (such as ownership or a majority of common board members) exists. BASIS School is the sole member/owner of BASIS DC. Based on the criteria stipulated in the pronouncement, management has determined that financial statement consolidation is appropriate. The financial statements of BASIS DC have been included in the separately issued financial statements of BASIS School.

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	June 30, 2015				June 30, 2014			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Contracted Executive Salaries	\$ 188,315	\$ 106,536	\$ 64,579	\$ 17,200	\$ 253,373	\$ 190,252	\$ 50,263	\$ 12,858
Teachers' Salaries	2,568,118	2,568,118	-	-	1,859,732	1,859,732	-	-
Teachers' Aides/Assistants' Salaries	-	-	-	-	63,308	63,308	-	-
Other Educational Professional Salaries	227,698	217,448	10,250	-	231,898	231,898	-	-
Clerical Salaries	193,721	173,165	20,556	-	165,117	142,049	23,068	-
Food Service Staff	86,445	86,445	-	-	108,435	108,435	-	-
Business Operation Salaries	185,051	127,799	57,252	-	220,958	132,543	88,415	-
Employee Benefits	295,594	287,612	7,982	-	224,573	215,123	9,450	-
Payroll Taxes	287,830	280,058	7,772	-	221,609	212,284	9,325	-
Temporary Staff	594	-	594	-	-	-	-	-
Staff Development Costs	39,570	38,501	1,069	-	14,738	14,118	620	-
Total Personnel, Salaries and Benefits	\$ 4,072,936	\$ 3,885,682	\$ 170,054	\$ 17,200	\$ 3,363,741	\$ 3,169,742	\$ 181,141	\$ 12,858
<u>Direct Student Costs:</u>								
Food Service	\$ 142,229	\$ 142,229	\$ -	\$ -	\$ 124,371	\$ 124,371	\$ -	\$ -
Instructional Supplies and Equipment	94,866	94,866	-	-	135,567	135,567	-	-
Contracted Instructional/Student Services	61,356	61,356	-	-	171,276	171,276	-	-
Extracurricular Supplies and Expenses	58,522	58,522	-	-	55,471	55,471	-	-
Depreciation - Textbooks	51,607	51,607	-	-	40,525	40,525	-	-
Other Student Costs	-	-	-	-	6,169	6,169	-	-
Total Direct Student Costs	\$ 408,580	\$ 408,580	\$ -	\$ -	\$ 533,379	\$ 533,379	\$ -	\$ -
<u>Occupancy Costs:</u>								
Rent	\$ 1,995,000	\$ 1,941,129	\$ 53,871	\$ -	\$ 1,977,500	\$ 1,894,291	\$ 83,209	\$ -
Building Insurance	45,175	43,955	1,220	-	42,031	40,262	1,769	-
Janitorial Service/Supplies	120,912	117,647	3,265	-	120,800	115,717	5,083	-
Maintenance and Repairs	56,396	54,873	1,523	-	44,312	42,448	1,864	-
Utilities	102,279	99,517	2,762	-	70,690	67,715	2,975	-
Security	1,901	1,850	51	-	5,126	4,910	216	-
Total Occupancy Costs	\$ 2,321,663	\$ 2,258,971	\$ 62,692	\$ -	\$ 2,260,459	\$ 2,165,343	\$ 95,116	\$ -

(See Accompanying Notes and Auditor's Report)

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	June 30, 2015				June 30, 2014			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
Office Expenses:								
Office Supplies and Materials	\$ 34,863	\$ 33,334	\$ 925	\$ 604	\$ 48,735	\$ 46,684	\$ 2,051	\$ -
Equipment Rental and Maintenance	25,266	24,584	682	-	9,289	8,898	391	-
Telecommunications	14,418	14,029	389	-	8,714	8,347	367	-
Internet DSL/Cable	24,560	23,897	663	-	33,084	31,692	1,392	-
Postage and Shipping	2,329	2,266	63	-	1,849	1,771	78	-
Travel	12,930	12,126	337	467	16,783	16,077	706	-
Rent - Other	-	-	-	-	20,961	20,079	882	-
Computer and Related	8,735	8,499	236	-	8,549	8,189	360	-
Recruitment	17,279	16,812	467	-	12,812	12,273	539	-
Marketing and Promotion	7,643	7,643	-	-	881	881	-	-
Total Office Expenses	\$ 148,023	\$ 143,190	\$ 3,762	\$ 1,071	\$ 161,657	\$ 154,891	\$ 6,766	\$ -
General Expenses:								
Insurance	\$ 22,367	\$ 21,763	\$ 604	\$ -	\$ 19,627	\$ 18,801	\$ 826	\$ -
Meeting and Event Expenses	5,252	4,845	134	273	1,897	1,817	80	-
Licenses and Permits	364	354	10	-	968	927	41	-
Dues and Subscriptions	3,384	3,293	91	-	2,753	2,637	116	-
Accounting and Legal Services	72,653	49,317	23,336	-	68,616	43,459	25,157	-
Consultants	5,306	3,306	-	2,000	-	-	-	-
Payroll Service Fee	6,254	6,085	169	-	4,343	4,160	183	-
Service Charges	3,933	-	1,934	1,999	2,486	-	912	1,574
Authorizer Fee	81,321	79,125	2,196	-	35,750	34,246	1,504	-
School Management Fee	890,617	866,567	24,050	-	1,271,565	1,218,060	53,505	-
Depreciation	71,393	69,465	1,928	-	37,774	36,185	1,589	-
Other General Expenses	546	531	15	-	46	44	2	-
Total General Expenses	\$ 1,163,390	\$ 1,104,651	\$ 54,467	\$ 4,272	\$ 1,445,825	\$ 1,360,336	\$ 83,915	\$ 1,574
TOTAL FUNCTIONAL EXPENSES	\$ 8,114,592	\$ 7,801,074	\$ 290,975	\$ 22,543	\$ 7,765,061	\$ 7,383,691	\$ 366,938	\$ 14,432

(See Accompanying Notes and Auditor's Report)

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE SCHEDULES OF AVERAGE COST PER STUDENT
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

<u>June 30, 2015</u>		
	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 5,542,103	\$ 10,058
Occupancy Cost	2,321,663	4,214
General and Administrative	228,283	414
Fundraising	<u>22,543</u>	<u>41</u>
Total	<u>\$ 8,114,592</u>	<u>\$ 14,727</u>

The above is the average per student cost for the year ended June 30, 2015, and is based on a full time equivalent (FTE) enrollment of 551 students.

<u>June 30, 2014</u>		
	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 5,218,348	\$ 10,232
Occupancy Cost	2,260,459	4,432
General and Administrative	271,822	533
Fundraising	<u>14,432</u>	<u>28</u>
Total	<u>\$ 7,765,061</u>	<u>\$ 15,225</u>

The above is the average per student cost for the year ended June 30, 2014, and is based on a full time equivalent (FTE) enrollment of 510 students.

(See Accompanying Notes and Auditor's Report)

KENDALL, PREBOLA AND JONES, LLC

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The Board of Directors
BDC, A Public Charter School, Inc.
410 8th Street, NW
Washington, DC 20004

INDEPENDENT AUDITOR'S 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*

We have audited, 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, the financial statements of BDC, A Public Charter School, Inc., (a nonprofit organization and affiliate of BASIS School, Inc.), which comprise the statement of financial position as of June 30, 2015, 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 November 30, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the BDC, A Public Charter School, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BDC, A Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 BDC, A Public Charter School, Inc.'s 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 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
November 30, 2015

BDC, A PUBLIC CHARTER SCHOOL, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings in the prior year.

BDC, A PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on the financial statements of BDC, A Public Charter School, Inc.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of BDC, A Public Charter School, Inc., were disclosed during the audit.

II. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards

None