

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, 2016 AND 2015

KENDALL, PREBOLA AND JONES

Certified Public Accountants

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

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, 2016 and 2015, 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, 2016 and 2015, 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.

Report on Supplementary Information

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 October 28, 2016, 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
October 28, 2016

BDC, A PUBLIC CHARTER SCHOOL, INC.
AN AFFILIATE OF BASIS SCHOOL, INC.
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 1,461,589	\$ 327,929
Accounts Receivable	44,959	48,464
Grants Receivable	18,290	83,967
Promises Receivable	175	750
Prepaid Expenses	<u>27,196</u>	<u>31,108</u>
Total Current Assets	<u>\$ 1,552,209</u>	<u>\$ 492,218</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation and Amortization	<u>\$ 216,222</u>	<u>\$ 176,677</u>
Total Fixed Assets	<u>\$ 216,222</u>	<u>\$ 176,677</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 1,375</u>	<u>\$ 4,805</u>
Total Other Assets	<u>\$ 1,375</u>	<u>\$ 4,805</u>
TOTAL ASSETS	<u>\$ 1,769,806</u>	<u>\$ 673,700</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 126,807	\$ 73,787
Accrued Wages Payable	193,867	225,184
Due to Related Organizations	50,961	58,636
Deferred Revenues	<u>5,075</u>	<u>5,800</u>
Total Current Liabilities	<u>\$ 376,710</u>	<u>\$ 363,407</u>
Total Liabilities	<u>\$ 376,710</u>	<u>\$ 363,407</u>
<u>Net Assets:</u>		
Unrestricted	\$ 1,149,871	\$ 75,475
Board Designated	74,892	75,000
Temporarily Restricted	<u>168,333</u>	<u>159,818</u>
Total Net Assets	<u>\$ 1,393,096</u>	<u>\$ 310,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,769,806</u>	<u>\$ 673,700</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, 2016 AND 2015

	June 30, 2016			June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues and Other Support:</u>						
Per Pupil Funding Allocation	\$ 6,607,385	\$ -	\$ 6,607,385	\$ 6,036,785	\$ -	\$ 6,036,785
Per Pupil Funding - Facilities Allotment	1,928,523	-	1,928,523	1,692,672	-	1,692,672
Federal Entitlements and Grants	160,608	-	160,608	221,167	-	221,167
State Grants	47,029	-	47,029	36,306	-	36,306
Contributions	3,814	168,333	172,147	5,790	157,459	163,249
Student Activity Fees	183,144	-	183,144	173,336	-	173,336
Loss on Disposal of Fixed Assets	(1,132)	-	(1,132)	(2,600)	-	(2,600)
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	159,818	(159,818)	-	97,148	(97,148)	-
Total Revenues and Other Support	\$ 9,089,189	\$ 8,515	\$ 9,097,704	\$ 8,260,604	\$ 60,311	\$ 8,320,915
<u>Expenses:</u>						
Educational Services	\$ 7,595,864	\$ -	\$ 7,595,864	\$ 7,801,074	\$ -	\$ 7,801,074
General and Administrative	385,600	-	385,600	290,975	-	290,975
Fundraising	33,437	-	33,437	22,543	-	22,543
Total Expenses	\$ 8,014,901	\$ -	\$ 8,014,901	\$ 8,114,592	\$ -	\$ 8,114,592
Changes in Net Assets	\$ 1,074,288	\$ 8,515	\$ 1,082,803	\$ 146,012	\$ 60,311	\$ 206,323
Net Assets, Beginning of Year	150,475	159,818	310,293	4,463	99,507	103,970
Net Assets, End of Year	\$ 1,224,763	\$ 168,333	\$ 1,393,096	\$ 150,475	\$ 159,818	\$ 310,293

(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, 2016 AND 2015

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 1,082,803	\$ 206,323
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	116,060	123,000
Loss on Disposal of Fixed Assets	1,132	2,600
Accounts Receivable - (Increase)/Decrease	3,505	(47,576)
Grants Receivable - (Increase)/Decrease	65,677	296,411
Promises Receivable - (Increase)/Decrease	575	(750)
Prepaid Expenses - (Increase)/Decrease	3,912	(10,919)
Deposits - (Increase)/Decrease	3,430	(3,431)
Accounts Payable - Increase/(Decrease)	53,020	37,808
Accrued Wages Payable - Increase/(Decrease)	(31,317)	(58,755)
Due to Related Organizations - Increase/(Decrease)	(7,675)	(426,969)
Refundable Advance on Grants - Increase/(Decrease)	-	(17,256)
Deferred Revenues - Increase/(Decrease)	<u>(725)</u>	<u>5,800</u>
Net Cash Flows from Operating Activities	<u>\$ 1,290,397</u>	<u>\$ 106,286</u>
<u>Cash Flows from Investing Activities:</u>		
Proceeds on Sale of Fixed Assets	\$ 875	\$ -
Purchase of Fixed Assets	(86,277)	(68,891)
Purchase of Textbooks	(63,938)	(39,883)
Purchase of Leasehold Improvements	<u>(7,397)</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>\$ (156,737)</u>	<u>\$ (108,774)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ 1,133,660	\$ (2,488)
Cash and Cash Equivalents at Beginning of Year	<u>327,929</u>	<u>330,417</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,461,589</u>	<u>\$ 327,929</u>

Supplemental Disclosures:

- a) No income taxes were paid during the years ended June 30, 2016 and 2015.
- b) No interest was paid during the years ended June 30, 2016 and 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 Washington DC is to empower students to achieve at globally competitive levels with a transformative academic program.

In the heart of the nation's capital, BASIS Washington DC offers students a world-class education, one with a curriculum that exceeds the best school systems across the world. It is the type of education that American students need to compete in the global economy. BASIS Washington DC operates on the principle that math, science, and the humanities are not disparate but complementary ways of communicating. BASIS Washington DC believes that any student can achieve at high levels, and that any student is capable of becoming someone who learns to love to learn. The BASIS Washington DC curriculum, consistent with the highest international academic standards, is designed to help students develop academic and organizational skills that are essential to lifetime success. Most importantly, at BASIS Washington DC, our bright, passionate teachers 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 Washington DC opened in 2012 to grades 5-8 in a wonderful school building near the National Portrait Gallery. BASIS Washington DC has added a grade each year, and now serves grades 5-12, just like our renowned and nationally ranked sister campuses. Additionally, during the coming year, BASIS Washington DC will be seeking a charter amendment in order to serve children in grades K-4 as well.

The BASIS Washington DC middle school grades focus on establishing the deep knowledge base necessary to prepare for the demands of our high school (college-preparatory) curriculum. Students in grades 5-7 master the foundations of language, math, and science and take 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 Washington 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. Our high school students take Advance Placement courses across the academic spectrum. By mastering a wide array of material, graduates of BASIS Washington 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.

Our 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, *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 on 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)(i)(A)(ii). The school did not have any net unrelated business income for the year ended June 30, 2016.

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 a deferred revenue 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, *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:

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 \$74,892 and \$75,000, respectively, as of June 30, 2016 and 2015, were for the purpose of the Annual Teacher Fund.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

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, 2016</u>	<u>June 30, 2015</u>
Annual Teacher Fund	\$ <u>168,333</u>	\$ <u>159,818</u>
Total	\$ <u>168,333</u>	\$ <u>159,818</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, 2016</u>	<u>June 30, 2015</u>
Annual Teacher Fund	\$ <u>159,818</u>	\$ <u>97,148</u>
Total Released	\$ <u>159,818</u>	\$ <u>97,148</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, 2016 or 2015.

(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 Washington DC provides an internationally-benchmarked, AP-infused liberal arts college preparatory education available to students in grades 5-12 in the District of Columbia.

Our program is based on creativity, innovation, and disciplined experimentation that is powered by teaching traditional content knowledge. BASIS Washington DC strives to serve students by helping them reach their highest academic potential. Our curriculum raises academic standards and exceeds expectations for student support.

Creating and Reinforcing a Culture of Academic Excellence

The BASIS Washington DC school culture makes 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 or limits, and to learn to love learning.

Recruiting Knowledgeable Teachers

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

BASIS Washington DC strives to create a culture of ongoing professional development in which teachers are accountable for improvement, rewarded for success, and encouraged to be their best and most creative selves in how they implement our academic program.

Training Teachers for Success

The BASIS Washington DC model - like that of all BASIS charter schools - 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 Washington DC classroom and are supported in a variety of ways through our teacher training and mentoring programs. BASIS.ed provides a summer training session for veteran faculty members throughout the BASIS.ed network to share their knowledge of classroom management techniques, teaching methods, and pedagogical research with new teachers.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Teaching Personal Responsibility

BASIS Washington DC aims to teach students that success is the result of hard work. Whether they are at the top of their class or merely keeping pace with the demands of the BASIS.ed curriculum, every BASIS Washington DC student is supported and encouraged to improve and to reach for his or her highest academic potential. Teaching students to take responsibility starts in elementary 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 take responsibility for what, when, where, and how they study.

As 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 Washington 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 Washington DC strives 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 Washington DC - our primary purpose is in achieving excellent outcomes for every one of our students. They are 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 Washington DC 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Basic Programs: (Continued)

Our Teachers (Continued)

In addition to these stringent qualifications:

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

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 our high school curriculum. By introducing high-level content standards in lower grade levels, BASIS Washington DC helps to ensure students are exposed to these concepts early and often and have mastered the material by the time they enroll in Honors and AP-level courses. In its first year of operation, BASIS Washington 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 begin taking biology, chemistry, and physics as separate subjects, like many top-performing peers in European and Asian countries.

The Bottom Line

The BASIS Washington DC learning culture - similar to that of every BASIS charter school across the country - originates from two self-evident truths:

1. There is no substitute for hard work and persistence.
2. Accomplishment and learning to be of use brings each of us deep satisfaction.

Our curriculum supports and exemplifies these notions. Our teachers instill these notions through intelligence and creativity, in classrooms that are vibrant and supportive. It's how we prepare our BASIS Washington DC students to be participants, not spectators, in their 21st century lives.

(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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(h) Functional Expense Allocation Policies and Procedures: (Continued)

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, instructional supplies and equipment, assessment material, and contracted instructional/student services) 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 professional 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.

(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) 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.

(k) 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.

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in BDC, A Public Charter School, Inc.'s financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. BDC, A Public Charter School, Inc. performed an evaluation of uncertain tax positions for the year ended June 30, 2016, 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.

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

2. ACCOUNTING FOR UNCERTAIN TAX POSITIONS: (Continued)

As of June 30, 2016, the statute of limitations for tax years 2012 through 2014 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the organization files tax returns. It is BDC, A Public Charter School, Inc.'s policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2016, BDC, A Public Charter School, Inc. had no accruals for interest and/or penalties.

3. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Non-Interest Bearing Checking Accounts	\$ <u>1,461,589</u>	\$ <u>327,929</u>
Total	\$ <u>1,461,589</u>	\$ <u>327,929</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, 2016 and 2015, \$1,213,053 and \$92,502, 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 Charter School 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.

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, 2016 and 2015 consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Accounts Receivable</u>		
Activity Fees	\$ 25,489	\$ 19,078
Per Pupil Funding	19,470	23,562
Related Organization	-	4,891
Reimbursable Expenses	<u>-</u>	<u>933</u>
Total	\$ <u>44,959</u>	\$ <u>48,464</u>

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

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

Accounts and Grants Receivable: (Continued)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Grants Receivable</u>		
Individuals with Disabilities Education Act (IDEA 611)	\$ 10,727	\$ 28,856
National School Lunch and Breakfast Program	7,563	10,935
Technology Schools Fund	-	25,077
Elementary and Secondary Education (Title II)	<u>-</u>	<u>19,099</u>
Total	<u>\$ 18,290</u>	<u>\$ 83,967</u>

The Charter School'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 Charter 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, 2016 and 2015.

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.

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, 2016</u>	<u>June 30, 2015</u>
Other - Unrestricted	\$ 175	\$ 500
Annual Teacher Fund	<u>-</u>	<u>250</u>
Total Promises Receivable	<u>\$ 175</u>	<u>\$ 750</u>

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

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

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 and amortization expense for the years ended June 30, 2016 and 2015 was \$116,060 and \$123,000, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

June 30, 2016

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Textbooks	3 Years	\$ 211,861	\$ 153,404	\$ 58,457
Furniture and Equipment	3-5 Years	225,290	144,263	81,027
Computers	3 Years	121,935	52,224	69,711
Leasehold Improvements	10 Years	<u>7,397</u>	<u>370</u>	<u>7,027</u>
Total		<u>\$ 566,483</u>	<u>\$ 350,261</u>	<u>\$ 216,222</u>

June 30, 2015

	<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>

6. DUE TO RELATED ORGANIZATIONS:

As of June 30, 2016 and 2015, amounts due and payable to related organizations are as follow:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
BASIS Educational Group	\$ 47,348	\$ 44,473
BASIS Schools	3,613	1,880
BASIS San Antonio	<u>-</u>	<u>12,283</u>
Total	<u>\$ 50,961</u>	<u>\$ 58,636</u>

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

7. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter 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 Fall of 2016. 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, 2016 and 2015, the Charter School incurred \$89,267 and \$81,321, respectively, in administrative fees. 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, 2016, was not permitted to be greater than 645 students. Audit enrollment for the 2015/2016 year was 597 students and for the 2014/2015 year was 551 students.

8. 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, 2016, the per-student rate ranged from \$9,492 to \$11,580 for the educational allotment and \$3,124 for the facility allotment. 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. Additional allotments were made for Special Education services and English as a Second Language. Per-pupil funding for the years ended June 30, 2016 and 2015 was as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Grade Level 5 th - 11 th Grade	\$ 6,139,615	\$ 5,606,545
Special Education	318,189	286,789
At Risk Students	130,977	143,451
English as a Second Language	18,604	-
Facilities Allowance	<u>1,928,523</u>	<u>1,692,672</u>
Total	<u>\$ 8,535,908</u>	<u>\$ 7,729,457</u>

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

9. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2016 and 2015, BASIS DC participated in multiple federal award programs. Federal revenues recognized during the years ended June 30, 2016 and 2015 was as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Individuals with Disabilities Education Act (IDEA 611)	\$ 84,934	\$ 83,546
National School Lunch and Breakfast Program	43,393	36,962
Elementary and Secondary Education (Title II)	32,281	60,506
Elementary and Secondary Education (Title I)	<u>-</u>	<u>40,153</u>
Total	<u>\$ 160,608</u>	<u>\$ 221,167</u>

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.

10. 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 July 1, 2016, were \$140,580. Included in the lease is an option to extend for one additional consecutive ten-year period through June 30, 2052. Rent expense related to this lease for the years ended June 30, 2016 and 2015 was \$1,129,685 and \$1,995,000, respectively.

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

10. COMMITMENTS: (Continued)

Office Lease - 410-412 Eighth Street: (Continued)

<u>Year Ending June 30,</u>	<u>Rent Obligation</u>
2017	\$ 1,686,960
2018	1,802,338
2019	1,814,086
2020	1,814,086
2021	<u>1,814,086</u>
Total	<u>\$ 8,931,556</u>

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, 2016 and 2015 was \$4,582. Future minimum payments due under this lease are as follows:

<u>Year Ended June 30,</u>	
2017	\$ 4,582
2018	<u>382</u>
Total	<u>\$ 4,964</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 \$582. Rental expense for the years ending June 30, 2016 and 2015 was \$6,988 and \$1,691, respectively. Future minimum payments due under this lease are as follows:

<u>Year Ended June 30,</u>	
2017	\$ 6,988
2018	<u>5,241</u>
Total	<u>\$ 12,229</u>

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

11. GUARANTEE OF INDEBTEDNESS:

Industrial Development Authority -

On January 1, 2016, BASIS Schools refinanced existing debt through the issue of Education Facility Revenue Bonds (BASIS Schools Project, Series 2016A) by the Industrial Development Authority of the City of Phoenix, Arizona, in the aggregate principal amount of \$84,160,000. Of this amount, \$33,890,000 relates to the refinancing of debt with Educational Capital Solutions, LLC, and 410 Eighth Street, LLC, originally incurred to purchase and improve the BASIS DC Campus. The proceeds of the bonds were loaned to BASIS Schools pursuant to a loan agreement dated January 1, 2016. The loan matures over 30 years with interest rates between 3.00% and 5.00%. The loan proceeds were used by BASIS Schools for the following purposes: to (i) refinance the costs of acquiring, constructing, improving and equipping, as applicable, the BASIS DC Campus, as well as five other BASIS Schools, (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 and (iv) pay certain issuance and underwriter expenses related to the bonds. The portion of the bond refinancing applicable to the BASIS DC Campus 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.

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% were 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 was 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. This note was refinanced by BASIS Schools on January 1, 2016

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% were 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 was 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. This note was refinanced by BASIS Schools on January 1, 2016.

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 were 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.

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

11. GUARANTEE OF INDEBTEDNESS: (Continued)

410 Eighth Street, LLC - (Continued)

This loan may be prepaid at any given time without restriction or penalty. The loan was 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. This note was refinanced by BASIS Schools on January 1, 2016.

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 \$20,000. Expenditures charged to this credit card are guaranteed by BASIS DC Public Charter School.

12. 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. As an authorized voting representative for BASIS Schools, Mr. Block could influence the financial and operational activities of BASIS DC through voting authority. However, his voting rights do not constitute a majority of the Board of Directors. Mr. Block's membership on the board of directors of BASIS Schools continued through November, 2015 at which time, he elected to resign from the board of directors.

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. 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, 2016, BASIS DC incurred expenses in the amount of \$976,962 for management fees and \$4,713,333 for leased employee wages and related benefits. During the year ended June 30, 2015, BASIS DC incurred expenses in the amount of \$890,617 for management fees and \$4,012,543 for leased employee wages and related benefits. As of June 30, 2016 and 2015, \$9,727 and \$6,561, respectively, was payable to BEG for management fees. In addition, \$193,867 and \$225,184, 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, 2016 and 2015.

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.

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

12. RELATED PARTY TRANSACTIONS: (Continued)

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.

13. 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 years ended June 30, 2016 and 2015, the Boosters organization provided a donation to BASIS DC in the amount of \$41,000 and \$73,000, respectively, to be deposited and utilized in the Annual Teacher Fund.

14. 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, 2016 and 2015, ninety-four percent (94%) and ninety-three percent (93%), 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.

15. 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 of funds) could adversely affect the School's ability to finance ongoing operations.

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

15. CONTINGENCIES: (Continued)

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.

16. SUBSEQUENT EVENTS:

Financial Statement Preparation:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 28, 2016, 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.

Enrollment:

Anticipated enrollment for the 2016/2017 school year is six hundred (600) students. These enrollment numbers are up from the current audit enrollment number of five hundred and ninety-seven (597) students during the 2015/2016 school year.

17. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Rent	\$ 1,129,685	\$ 1,995,000
Insurance - Building	46,040	45,175
Janitorial Services/Supplies	117,972	120,912
Maintenance and Repairs	82,587	56,396
Utilities	96,430	102,279
Security	<u>5,912</u>	<u>1,901</u>
Total	<u>\$ 1,478,626</u>	<u>\$ 2,321,663</u>

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

18. FUNDRAISING:

During the years ended June 30, 2016 and 2015, expenses incurred for the purpose of fundraising were \$33,437 and \$22,543, respectively.

19. ADVERTISING:

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 \$14,673 and \$7,643 were incurred during the years ended June 30, 2016 and 2015, respectively.

20. 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 (other than highly compensated employees), the employer will provide a match contribution up to a maximum total employer contribution of 9%.

21. CONSOLIDATION:

Management has applied principles of FASB ASC 958-810, *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, 2016 AND 2015

	June 30, 2016				June 30, 2015			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Contracted Executive Salaries	\$ 266,611	\$ 162,377	\$ 90,994	\$ 13,240	\$ 188,315	\$ 106,536	\$ 64,579	\$ 17,200
Teachers' Salaries	2,782,035	2,782,035	-	-	2,568,118	2,568,118	-	-
Teachers' Aides/Assistants' Salaries	-	-	-	-	-	-	-	-
Other Educational Professional Salaries	165,787	165,787	-	-	227,698	217,448	10,250	-
Clerical Salaries	634,447	585,572	43,333	5,542	193,721	173,165	20,556	-
Food Service Staff	-	-	-	-	86,445	86,445	-	-
Business Operation Salaries	135,535	83,232	49,563	2,740	185,051	127,799	57,252	-
Employee Benefits	407,231	386,237	18,794	2,200	295,594	287,612	7,982	-
Payroll Taxes	321,687	305,102	14,847	1,738	287,830	280,058	7,772	-
Temporary Staff	345	345	-	-	594	-	594	-
Staff Development Costs	<u>31,667</u>	<u>27,210</u>	<u>4,457</u>	<u>-</u>	<u>39,570</u>	<u>38,501</u>	<u>1,069</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 4,745,345</u>	<u>\$ 4,497,897</u>	<u>\$ 221,988</u>	<u>\$ 25,460</u>	<u>\$ 4,072,936</u>	<u>\$ 3,885,682</u>	<u>\$ 170,054</u>	<u>\$ 17,200</u>
<u>Direct Student Costs:</u>								
Food Service	\$ 147,420	\$ 147,420	\$ -	\$ -	\$ 142,229	\$ 142,229	\$ -	\$ -
Instructional Supplies and Equipment	69,433	69,433	-	-	94,866	94,866	-	-
Contracted Instructional/Student Services	77,003	77,003	-	-	61,356	61,356	-	-
Extracurricular Supplies and Expenses	40,545	40,545	-	-	58,522	58,522	-	-
Depreciation - Textbooks	<u>48,564</u>	<u>48,564</u>	<u>-</u>	<u>-</u>	<u>51,607</u>	<u>51,607</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 382,965</u>	<u>\$ 382,965</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 408,580</u>	<u>\$ 408,580</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,129,685	\$ 1,077,264	\$ 52,421	\$ -	\$ 1,995,000	\$ 1,941,129	\$ 53,871	\$ -
Building Insurance	46,040	43,904	2,136	-	45,175	43,955	1,220	-
Janitorial Service/Supplies	117,972	112,498	5,474	-	120,912	117,647	3,265	-
Maintenance and Repairs	82,587	78,755	3,832	-	56,396	54,873	1,523	-
Utilities	96,430	91,955	4,475	-	102,279	99,517	2,762	-
Security	<u>5,912</u>	<u>5,638</u>	<u>274</u>	<u>-</u>	<u>1,901</u>	<u>1,850</u>	<u>51</u>	<u>-</u>
Total Occupancy Costs	<u>\$ 1,478,626</u>	<u>\$ 1,410,014</u>	<u>\$ 68,612</u>	<u>\$ -</u>	<u>\$ 2,321,663</u>	<u>\$ 2,258,971</u>	<u>\$ 62,692</u>	<u>\$ -</u>

(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, 2016 AND 2015

	<u>June 30, 2016</u>				<u>June 30, 2015</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 32,320	\$ 29,488	\$ 1,435	\$ 1,397	\$ 34,863	\$ 33,334	\$ 925	\$ 604
Equipment Rental and Maintenance	21,363	20,372	991	-	25,266	24,584	682	-
Telecommunications	6,487	6,185	302	-	14,418	14,029	389	-
Internet DSL/Cable	43,409	41,395	2,014	-	24,560	23,897	663	-
Postage and Shipping	1,456	1,388	68	-	2,329	2,266	63	-
Travel	1,340	1,272	61	7	12,930	12,126	337	467
Computer and Related	-	-	-	-	8,735	8,499	236	-
Recruitment	25,572	24,386	1,186	-	17,279	16,812	467	-
Marketing and Promotion	14,673	14,673	-	-	7,643	7,643	-	-
Total Office Expenses	<u>\$ 146,620</u>	<u>\$ 139,159</u>	<u>\$ 6,057</u>	<u>\$ 1,404</u>	<u>\$ 148,023</u>	<u>\$ 143,190</u>	<u>\$ 3,762</u>	<u>\$ 1,071</u>
<u>General Expenses:</u>								
Insurance	\$ 25,075	\$ 23,911	\$ 1,164	\$ -	\$ 22,367	\$ 21,763	\$ 604	\$ -
Meeting and Event Expenses	5,621	5,331	260	30	5,252	4,845	134	273
Licenses and Permits	1,098	1,047	51	-	364	354	10	-
Dues and Subscriptions	34,110	32,528	1,582	-	3,384	3,293	91	-
Accounting and Legal Services	35,711	6,600	29,111	-	72,653	49,317	23,336	-
Consultants	8,604	4,604	-	4,000	5,306	3,306	-	2,000
Payroll Service Fee	9,247	8,769	428	50	6,254	6,085	169	-
Service Charges	6,138	-	3,645	2,493	3,933	-	1,934	1,999
Authorizer Fee	89,267	85,125	4,142	-	81,321	79,125	2,196	-
School Management Fee	976,962	931,628	45,334	-	890,617	866,567	24,050	-
Depreciation	67,496	64,364	3,132	-	71,393	69,465	1,928	-
Offices Expenses	2,016	1,922	94	-	546	531	15	-
Total General Expenses	<u>\$ 1,261,345</u>	<u>\$ 1,165,829</u>	<u>\$ 88,943</u>	<u>\$ 6,573</u>	<u>\$ 1,163,390</u>	<u>\$ 1,104,651</u>	<u>\$ 54,467</u>	<u>\$ 4,272</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 8,014,901</u>	<u>\$ 7,595,864</u>	<u>\$ 385,600</u>	<u>\$ 33,437</u>	<u>\$ 8,114,592</u>	<u>\$ 7,801,074</u>	<u>\$ 290,975</u>	<u>\$ 22,543</u>

(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, 2016 AND 2015

June 30, 2016

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 6,185,850	\$ 10,362
Occupancy Cost	1,478,626	2,477
General and Administrative	316,988	530
Fundraising	<u>33,437</u>	<u>56</u>
Total	<u>\$ 8,014,901</u>	<u>\$ 13,425</u>

The above is the average per student cost for the year ended June 30, 2016, and is based on a full time equivalent (FTE) enrollment of 597 students.

June 30, 2015

	<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.

(See Accompanying Notes and Auditor's Report)

Kendall, Prebola and Jones, LLC
Certified Public Accountants

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, 2016, 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 October 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 BDC, A Public Charter School, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of BDC, A Public Charter School, Inc.'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 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
October 28, 2016

BDC, A PUBLIC CHARTER SCHOOL, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings in the prior year.

BDC, A PUBLIC CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of BDC, A Public Charter School, Inc., were prepared in accordance with generally accepted accounting principles.
- 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., which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

There were no findings in the current year.