



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2019

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BASIS TEXAS CHARTER SCHOOLS, INC.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: 45-4269957
COUNTY DISTRICT NUMBER 015-834

CERTIFICATE OF THE BOARD

We, the undersigned, certify that the attached Financial and Compliance Report of Basis Texas Charter Schools, Inc. was reviewed and (check one) approved disapproved for the year ended June 30, 2019, at a meeting of the governing body of the charter holder on the 16th day of November, 2019.

Edward W. Alford
Signature of Board Secretary

CR Bant
Signature of Board President



Armstrong, Vaughan & Associates, P. C.

Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan

Certified Public Accountants

Kimberly J. Roach

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Basis Texas Charter Schools, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying statement of financial position of Basis Texas Charter Schools, Inc. as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Basis Texas Charter Schools, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the financial statements, Basis Texas Charter Schools, Inc. adopted new accounting guidance from the Financial Accounting Standards Board Update 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. This did not require a restatement of prior year balances. Our opinion is not modified with respect to this matter.

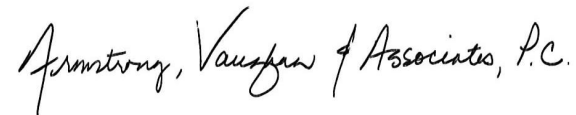
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information (consisting of the schedule of expenses, schedule of capital assets and budgetary comparison schedule and notes) is presented for the purposes of additional analysis and is not a required part of the financial statements. The Supplementary 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 other 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 Supplementary 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 5, 2019 on our consideration of Basis Texas Charter Schools, 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 Basis Texas Charter Schools, Inc.'s internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

November 5, 2019

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 4,359,836
Accounts Receivable:	
Texas Education Agency	2,944,222
Other	32,951
Prepaid Expenses	50,308
<i>Total Current Assets</i>	7,387,317

<i>Property and Equipment, net</i>	1,458,611
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TOTAL ASSETS	\$ 8,845,928
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 1,757,309
Unearned Revenue	10,018
Payable to Related Entity BCSI	24,705
<i>Total Liabilities</i>	1,792,032

Net Assets:

Without Donor Restrictions	5,224,259
With Donor Restrictions	1,829,637
<i>Total Net Assets</i>	7,053,896

TOTAL LIABILITIES AND NET ASSETS	\$ 8,845,928
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The accompanying notes are an integral part of these financial statements.

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE			
5700 Local Revenues	\$ 4,172,323	\$ 661,973	\$ 4,834,296
5800 State Revenues	-	20,106,070	20,106,070
5900 Federal Revenues	-	279,232	279,232
	<u>4,172,323</u>	<u>21,047,275</u>	<u>25,219,598</u>
Net Assets Released from Restrictions	20,060,876	(20,060,876)	-
TOTAL REVENUE	<u>24,233,199</u>	<u>986,399</u>	<u>25,219,598</u>
EXPENSES			
11 Instruction	9,629,028	-	9,629,028
13 Curriculum Development and Instructional Student Development	455,369	-	455,369
23 School Leadership	3,583,121	-	3,583,121
31 Guidance, Counseling and Evaluation Services	468,135	-	468,135
36 Extracurricular Activities	557,464	-	557,464
41 General Administration	2,039,385	-	2,039,385
51 Plant Maintenance	4,296,288	-	4,296,288
52 Security and Monitoring	112,735	-	112,735
53 Data Processing	696,284	-	696,284
TOTAL EXPENSES	<u>21,837,809</u>	<u>-</u>	<u>21,837,809</u>
CHANGE IN NET ASSETS	2,395,390	986,399	3,381,789
NET ASSETS - BEGINNING OF YEAR	<u>2,828,869</u>	<u>843,238</u>	<u>3,672,107</u>
NET ASSETS - END OF YEAR	<u>\$ 5,224,259</u>	<u>\$ 1,829,637</u>	<u>\$ 7,053,896</u>

The accompanying notes are an integral part of these financial statements.

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Payroll and Benefits	Professional and Contract Services	Supplies and Materials	Other Operating Costs	Totals
<i>Program</i>					
11 Instruction	\$ -	\$ 9,380,967	\$ 96,880	\$ 151,181	\$ 9,629,028
13 Curriculum Development and Instructional Student Development	-	417,535	778	37,056	455,369
23 School Leadership	-	3,440,966	74,303	67,852	3,583,121
31 Guidance, Counseling and Evaluation	-	360,615	107,112	408	468,135
36 Extracurricular Activities	-	290,813	151,470	115,181	557,464
51 Plant Maintenance	-	4,072,318	84,403	139,567	4,296,288
52 Security and Monitoring	-	112,735	-	-	112,735
53 Data Processing	-	696,284	-	-	696,284
<i>General and Administrative</i>					
41 General Administration	191,160	1,684,946	9,306	153,973	2,039,385
TOTAL EXPENSES	<u>\$ 191,160</u>	<u>\$ 20,457,179</u>	<u>\$ 524,252</u>	<u>\$ 665,218</u>	<u>\$ 21,837,809</u>

The accompanying notes are an integral part of these financial statements.

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash Received from State and Federal Grantors	\$ 19,959,429
Cash Received from Others	3,759,063
Cash Paid to Employees for Services	(191,160)
Payments to Vendors for Goods and Services	(20,860,584)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>2,666,748</u>
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	
Purchase of Property and Equipment	(149,087)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(149,087)</u>
 NET INCREASE (DECREASE) IN CASH	 2,517,661
 BEGINNING CASH AND CASH EQUIVALENTS	 <u>1,842,175</u>
ENDING CASH AND CASH EQUIVALENTS	<u><u>\$ 4,359,836</u></u>
 RECONCILIATION OF CHANGES IN NET ASSETS TO NET	
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ 3,381,789
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	191,152
Donation of Land	(1,067,000)
(Increase) Decrease in Current Assets:	
Accounts Receivable:	
Texas Education Agency	(425,873)
Other	(9,491)
Prepaid Expenses	101,278
Receivable from Related Entity BSI	30,087
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	463,548
Unearned Revenue	1,258
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 2,666,748</u></u>

The accompanying notes are an integral part of these financial statements.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Basis Texas Charter Schools, Inc. (BTCS) (formerly known as BTX Schools, Inc.) is a Texas nonprofit corporation that operates three open-enrollment charter schools, serving grades kindergarten through twelfth in San Antonio, Texas. BTCS's single member is BASIS Charter Schools, Inc. (BCSI) (an Arizona based nonprofit corporation). In 2013, the State Board of Education of the State of Texas approved the open-enrollment charter, pursuant to Chapter 12 of the Texas Education Code ("TEC"), to BTCS. BTCS is governed by a Board of Directors comprised of five members. The Board of Directors is appointed by BCSI and has the authority to make decisions, appoint the chief executive officer of the Charter, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter.

BTCS receives the majority of its funding from the Texas Education Agency based on average daily attendance in the schools it operates. Since the Charter receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

BTCS does not conduct any non-charter activities.

Basis of Accounting and Presentation

The general-purpose financial statements of BTCS were prepared in conformity with accounting principles generally accepted in the United States. The *Financial Accounting Standards Board* is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

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

Without Donor Restrictions – net assets that are not subject to grantor or donor-imposed stipulations.

With Donor Restrictions – net assets subject to grantor or donor-imposed stipulations that may or will be met either by actions of BTCS and/or passage of time.

Cash and Cash Equivalents

For financial statement purposes, BTCS considers all highly liquid investment instruments with an original maturity of three months or less to be cash.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Contributions

BTCS accounts for contributions depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without restrictions. Unconditional promises to give are recorded as contribution revenue when the promise is made. Conditional promises are recorded once conditions are met.

Capital Assets

Capital assets are defined by BTCS as assets with a useful life greater than one year and an individual cost of more than \$300 and all textbooks. Such assets are recorded at historical cost (or fair value if donated) and are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Useful lives are generally estimated to be 3-to-5 years for furniture and equipment and 34 years for leasehold improvements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

Costs associated with running the Organization's programs are shown as program expenses. Costs directly related to the central office are allocated to management and general. This includes personnel costs of the executive director and deputy superintendent and occupancy costs for the central office. Costs are generally allocated based on job descriptions and guidance from the Texas Education Agency's Financial Accounting System Resource Guide.

Income Taxes

Basis Texas Charter Schools, Inc. is a not-for-profit organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. As such, no provision for income taxes has been made in the financial statements. The organizations generally are no longer subject to income tax examination by Federal authorities for years prior to June 30, 2016.

Subsequent Events

Subsequent events were considered through November 5, 2019, which is the date the financial statements were available to be issued.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Change in Accounting Principle

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. In additions, ASU 2016-14 removes the requirement that not-for-profit entities that chose to prepare the statement of cash flows using the direct method must also present a reconciliation (the indirect method). The Organization has adopted the ASU as of July 1, 2018.

NOTE 2 -- CASH AND CASH EQUIVALENTS

As of June 30, 2019, \$4,109,836 of deposits of BTCS were uncollateralized. None of these uncollateralized deposits represented Federal or State funds.

NOTE 3 -- ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2019 were made up of the following:

Texas Education Agency	
Foundation School Program	\$ 2,868,905
Federal Funding	49,897
Other State Funding	25,420
Other	
Miscellaneous	32,951
Total Accounts Receivable	<u>\$ 2,977,173</u>

NOTE 4 -- PROMISES TO GIVE

As of June 30, 2019, BTCS had \$5,900,000 remaining on three conditional promises to give that will be recorded once the conditions (performance and growth metrics) are achieved.

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2019

NOTE 5 -- CAPITAL ASSETS

Capital assets at June 30, 2019 were as follows:

Land	\$ 1,067,000
Leasehold Improvements	91,205
Furniture, Equipment & Textbooks	1,034,385
Total Property and Equipment	2,192,590
Less: Accumulated Depreciation	(733,979)
Property and Equipment - Net	\$ 1,458,611

Capital assets acquired with public funds received by BTCS for the operation of the open-enrollment charter schools constitute public property pursuant to Charter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense was \$191,152 for the year ended June 30, 2019.

NOTE 6 -- NET ASSETS WITH RESTRICTIONS

Net assets with restriction as of June 30, 2019 were as follows:

Foundation School Program	\$ 1,346,038
Teacher Compensation	433,782
Other State Programs	49,817
Total Temporarily Restricted Net Assets	\$ 1,829,637

Releases of net assets with restrictions during the year ending June 30, 2019 were as follows:

Foundation School Program	\$ 18,911,190
Teacher Compensation	661,020
Federal Programs	277,979
Other State Programs	210,687
Total Temporarily Restricted Net Assets	\$ 20,060,876

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2019

NOTE 7 -- PENSION PLAN OBLIGATION

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the State and there is no withdrawal penalty for leaving TRS. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications Heading.

The plan financial statements for the year ending August 31, 2018 reported a plan net position of \$155 billion with a total pension liability of \$210 billion. Net position of the plan represented 74% of the total pension liability.

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. The following table presents contribution rates:

<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
2019	7.70%	6.80%	0.00%
2018	7.70%	6.80%	0.00%
2017	7.70%	6.80%	0.00%

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2019

NOTE 7 -- PENSION PLAN OBLIGATION (CONT.)

The following table presents contribution amounts:

<u>Year Ending June 30,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
2019	\$ 12,093	\$ 10,680	\$ -
2018	11,756	10,382	-
2017	7,268	6,418	2,037

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and 1.5% of all covered salaries to TRS if the Charter does not participate in social security. The Charter was not required to make any employer contributions for the year ending June 30, 2019.

Leased personnel of the management company (see Note 11) are not Texas employees and thus do not participate in the Teacher Retirement System.

NOTE 8 -- RETIREE HEALTH PLAN

TRS also offers retiree health insurance, called TRS-Care, a cost-sharing multiple-employer defined benefit postemployment health care plan. Qualified retirees (and their dependents) receive health insurance paid for by the plan. The statutory authority for the program is Texas Insurance Code, Chapter 1575. The State, employees and employers contribute a portion of covered payroll.

The plan financial statements for the year ending August 31, 2018 reported a plan net position of \$799 billion with a total OPEB liability of \$51 billion. Net position of the plan represented 2% of the total OPEB liability.

Contribution requirements are not actuarially determined but are established each biennium by the Texas State Legislature. Contribution rates and amounts were as follows:

<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
2019	0.65%	1.25%	0.75%
2018	0.65%	1.25%	0.75%
2017	0.65%	1.00%	0.55%

<u>Year Ending June 30,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
2019	\$ 908	\$ 1,746	\$ 1,053
2018	672	1,292	632
2017	624	960	528

NOTE 9 -- HEALTH CARE COVERAGE

During the year ended June 30, 2019, the employees of Basis Texas Charter Schools, Inc. was covered by a Health Insurance Plan (the Plan). The Charter contributes an amount per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2019

NOTE 10 -- RELATED ENTITY

BASIS Charter Schools Inc. (BCSI) is the sole member of BTCS, has common management (BASIS Educational Group (See Note 11)), and shares one common Board member. BCSI also has the authority to appoint members to the Board of Directors of BTCS. BTCS leases facilities from BCSI (See Note 12) and the two entities collaborate on projects to minimize costs and ease administrative burden. In the normal course of their operations payables and receivables are incurred between these entities and are reflected on the Statement of Financial Position as receivables and payables.

NOTE 11 -- BASIS EDUCATIONAL GROUP MANAGEMENT AGREEMENT

BTCS contracted with BASIS Educational Group (BASIS.ed) to perform management and operational functions of BTCS, including leased personnel, and to participate in the BASIS education model. Management fees are paid to BASIS.ed based on a percentage of certain revenue. Expenses recognized to BASIS.ed for the year ending June 30, 2019 were \$2.7 million for management fees, \$12.5 million for leased personnel and \$278 thousand for recruiting and school development.

NOTE 12 -- OPERATING LEASES

BTCS has operating leases with BCSI for all three campuses. The lease agreements provide a schedule of required monthly payments for the entire terms through June 30, 2052. BTCS has pledged all revenues to satisfying these lease payments, including State payments to the extent the lease payments represent authorized purposes under the Texas Education Code. Rental expense for the year ending June 30, 2019 related to the BCSI leases was \$3.4 million.

In addition, BTCS signed a lease for office space. The office lease requires monthly payments and terminates February 28, 2020. BTCS also rented a temporary school site from a church that ended in September 2018. Rental expense for the year ending June 30, 2019 for these leases was \$218 thousand. Future minimum lease payments as of June 30, 2019 are as follows:

Year Ending June 30,	Future Minimum Lease Payments		
	BCSI	Office	Total
2020	\$ 3,476,476	\$ 15,592	\$ 3,492,068
2021	3,528,624	-	3,528,624
2022	3,581,553	-	3,581,553
2023	3,635,276	-	3,635,276
2024	3,689,806	-	3,689,806
2025-2029	19,296,026	-	19,296,026
2030-2034	20,787,298	-	20,787,298
2035-2039	22,393,825	-	22,393,825
2040-2044	24,124,508	-	24,124,508
2045-2049	25,888,648	-	25,888,648
2050-2052	6,189,062	-	6,189,062

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2019

NOTE 13 -- COMMITMENTS AND CONTINGENCIES

The Charter receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

NOTE 14 -- LIQUIDITY AND AVAILABILITY

BTCS is substantially supported by the State of Texas Foundation School Program (FSP) which is based on student enrollment. Most of the private philanthropy received is without restriction and can be used to support general operations of the charter school. In addition, the payables reported on the statement of financial position consist primarily of teacher compensation for which net assets with donor restrictions may be used. Thus, all of the working capital (current assets less current liabilities) reported on the Statement of Financial Position (\$5.6 million) is available to fund the operations of the Organization. In addition, an initial FSP allotment of \$20.9 million will be available to fund the 2020 fiscal year. The Organization's goal is to maintain at least 60 days of cash and this was achieved as of June 30, 2019.

NOTE 15 -- LITIGATION

BTCS is a defendant in a lawsuit over storm water runoff onto a neighboring property. Damages are unknown but they would be covered by insurance. If decided adversely to BTCS, the litigation would not result in any significant financial impact.

SUPPLEMENTARY INFORMATION

BASIS TEXAS CHARTER SCHOOLS, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

EXPENSES	
6100 Payroll	\$ 191,160
6200 Professional and Contracted Services	20,457,179
6300 Supplies and Materials	524,252
6400 Other Operating Costs	665,218
6500 Debt Service	-
Total Expenses	<u>\$ 21,837,809</u>

See Independent Auditor's Report.

BASIS TEXAS CHARTER SCHOOLS, INC.
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2019

	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 4,309,863	\$ 64,187	\$ (14,214)
1510 Land and Improvements	1,067,000	-	-
1520 Buildings and Improvements	-	-	91,205
1531 Vehicles	-	-	-
1539 Furniture and Equipment > \$5,000	62,664	-	27,935
1549 Furniture and Equipment < \$5,000	663,079	138,142	142,565
Total Property and Equipment	<u>\$ 6,102,606</u>	<u>\$ 202,329</u>	<u>\$ 247,491</u>

Note: The Corporation utilizes a pooled cash system. Negative cash amounts reflected above represent short-term borrowings from locally sourced cash that will be repaid through granting agency reimbursements.

BASIS TEXAS CHARTER SCHOOLS, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final	Amounts (Budgetary)	
REVENUE				
5700 Local Support	\$ 3,540,938	\$ 4,834,223	\$ 4,834,296	\$ 73
5800 State Funding	19,582,687	19,965,777	20,106,070	140,293
5900 Federal Funding	239,939	275,467	279,232	3,765
TOTAL REVENUE	<u>23,363,564</u>	<u>25,075,467</u>	<u>25,219,598</u>	<u>144,131</u>
EXPENSES				
11 Instruction	9,400,539	9,511,399	9,478,463	32,936
13 Curriculum Development and Instructional Student Development	486,743	471,085	455,369	15,716
23 School Leadership	3,746,508	3,722,771	3,568,465	154,306
31 Guidance, Counseling and Evaluation Services	486,743	471,085	467,726	3,359
36 Extracurricular Activities	514,196	590,000	554,873	35,127
41 General Administration	2,101,958	2,034,340	2,036,210	(1,870)
51 Plant Maintenance	4,371,585	4,350,001	4,276,532	73,469
52 Security and Monitoring	115,000	110,000	112,735	(2,735)
53 Data Processing Services	754,579	710,170	696,284	13,886
TOTAL EXPENSES	<u>21,977,851</u>	<u>21,970,851</u>	<u>21,646,657</u>	<u>324,194</u>
CHANGE IN NET ASSETS	<u>\$ 1,385,713</u>	<u>\$ 3,104,616</u>	3,572,941	<u>\$ 468,325</u>
Reconciliation to Net Change in Net Assets				
Perspective Differences:				
Unbudgeted Depreciation			<u>(191,152)</u>	
Change in Net Assets (All Funds, GAAP Basis)			<u>\$ 3,381,789</u>	

See Independent Auditor's Report.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2019

BUDGETARY DIFFERENCES

BTCS does not budget for depreciation, amortization or capital expenditures. Those amounts, if any, have been removed from the actual amount column for budget analysis purposes.

**COMPLIANCE AND
INTERNAL CONTROL**



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Basis Texas Charter Schools, Inc. (BTCS)
San Antonio, Texas

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 BTCS, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 5, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BTCS'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 BTCS's internal control. Accordingly, we do not express an opinion on the effectiveness of BTCS'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 Basis Texas Charter Schools, 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armstrong, Vaughan & Associates, P.C.

November 5, 2019