



Texas Charter Schools, Inc.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2020

TABLE OF CONTENTS

CERTIFICATE OF THE BOARD	1
INDEPENDENT AUDITOR’S REPORT	2
GENERAL-PURPOSE FINANCIAL STATEMENTS	4
STATEMENT OF FINANCIAL POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
STATEMENT OF FUNCTIONAL EXPENSES	7
STATEMENT OF CASH FLOWS.....	8
NOTES TO FINANCIAL STATEMENTS.....	10
SUPPLEMENTARY INFORMATION	19
SCHEDULE OF EXPENSES.....	20
SCHEDULE OF CAPITAL ASSETS.....	21
BUDGETARY COMPARISON SCHEDULE.....	22
NOTES TO BUDGETARY COMPARISON SCHEDULE	23
CHARTER SCHOOL STATEMENT OF ACTIVITIES.....	24
COMPLIANCE AND INTERNAL CONTROL.....	25
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	26

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, 2020, at a meeting of the governing body of the charter holder on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2020, 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, 2020, 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.

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, budgetary comparison schedule and notes, and charter school statement of activities) 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 December 14, 2020 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.

December 14, 2020

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 7,130,730
Restricted Cash - Debt Service	299,356
Accounts Receivable:	
Texas Education Agency	3,172,568
Other	64,248
Prepaid Expenses	150,367
Receivable from Related Entity BCSI	33,566
<i>Total Current Assets</i>	10,850,835

Other Assets:

Property and Equipment, net	12,096,762
Restricted Cash - Construction	2,395,534
Restricted Cash - Debt Reserve	755,069
<i>Total Other Assets</i>	15,247,365

TOTAL ASSETS \$26,098,200

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable and Accrued Expenses	\$ 3,292,464
Payroll Withholdings and Deductions	6,149
Accrued Interest	147,041
Unearned Revenue	425,811
<i>Total Current Liabilities</i>	3,871,465

Long-term Liabilities:

Principal of Long-Term Debt	12,465,000
Unamortized Premiums and Issuance Costs	(170,189)
<i>Total Long-Term Liabilities</i>	12,294,811

Total Liabilities 16,166,276

Net Assets:

Without Donor Restrictions	5,125,217
With Donor Restrictions	4,806,707
<i>Total Net Assets</i>	9,931,924

TOTAL LIABILITIES AND NET ASSETS \$26,098,200

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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
REVENUE			
Local Donations and Fees	\$ 1,238,453	\$ 2,779,411	\$ 4,017,864
State Program Revenues	-	21,271,256	21,271,256
Federal Program Revenues	-	388,156	388,156
	<u>1,238,453</u>	<u>24,438,823</u>	<u>25,677,276</u>
Net Assets Released from Restrictions	<u>21,461,753</u>	<u>(21,461,753)</u>	<u>-</u>
TOTAL REVENUE	<u>22,700,206</u>	<u>2,977,070</u>	<u>25,677,276</u>
EXPENSES			
Primary and Secondary Education Program	18,078,169	-	18,078,169
General and Administrative	4,564,225	-	4,564,225
Fundraising	156,854	-	156,854
TOTAL EXPENSES	<u>22,799,248</u>	<u>-</u>	<u>22,799,248</u>
CHANGE IN NET ASSETS	(99,042)	2,977,070	2,878,028
NET ASSETS - BEGINNING OF YEAR	<u>5,224,259</u>	<u>1,829,637</u>	<u>7,053,896</u>
NET ASSETS - END OF YEAR	<u><u>\$ 5,125,217</u></u>	<u><u>\$ 4,806,707</u></u>	<u><u>\$ 9,931,924</u></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, 2020

	Primary and Secondary Education	General and Administrative	Fundraising	Total
Salaries and Wages	\$ 9,742,630	\$ 1,223,816	\$ 88,070	\$ 11,054,516
Payroll Taxes and Benefits	2,083,614	269,532	8,588	2,361,734
Management and School Development Fees	2,124,937	1,132,828	-	3,257,765
Legal Fees	-	59,052	-	59,052
Accounting Fees	16,065	6,885	-	22,950
Other Service Fees	576,540	55,957	-	632,497
Supplies	257,868	65,180	-	323,048
Information Technology	53,576	32,930	3,390	89,896
Insurance	81,035	35,858	-	116,893
Travel	20,718	22,761	-	43,479
Advertising and Promotion	-	285,726	-	285,726
Occupancy	2,775,301	1,219,156	-	3,994,457
Office	29,413	73,989	-	103,402
Fundraising	-	-	56,806	56,806
Depreciation	210,044	22,994	-	233,038
Amortization	1,469	630	-	2,099
Other Expenses	104,959	56,931	-	161,890
TOTAL EXPENSES	<u>\$ 18,078,169</u>	<u>\$ 4,564,225</u>	<u>\$ 156,854</u>	<u>\$ 22,799,248</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, 2020

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash Received from State and Federal Grantors	\$ 21,431,066
Cash Received from Others	4,417,102
Cash Paid to Employees for Services	(211,612)
Payments to Vendors for Goods and Services	<u>(20,984,267)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>4,652,289</u>
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	
Purchase of Property and Equipment	<u>(10,724,147)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(10,724,147)</u>
 CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	
Issuance of Long-Term Debt	12,465,000
Premiums on Long-Term Debt	412,407
Issuance Costs Paid	<u>(584,696)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>12,292,711</u>
 NET INCREASE (DECREASE) IN CASH	 6,220,853
 BEGINNING CASH AND CASH EQUIVALENTS	
Unrestricted	4,359,836
Restricted	-
	<u>4,359,836</u>
 ENDING CASH AND CASH EQUIVALENTS	
Unrestricted	7,130,730
Restricted	<u>3,449,959</u>
	<u><u>\$ 10,580,689</u></u>

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

BASIS TEXAS CHARTER SCHOOLS, INC.
STATEMENT OF CASH FLOWS (CONT.)
FOR THE YEAR ENDED JUNE 30, 2020

**RECONCILIATION OF CHANGES IN NET ASSETS TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Increase (Decrease) in Net Assets	\$ 2,878,028
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	233,038
Amortization	2,099
(Increase) Decrease in Current Assets:	
Accounts Receivable:	
Texas Education Agency	(228,346)
Other	(31,297)
Prepaid Expenses	(100,059)
Receivable from Related Entity BCSI	(58,271)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	1,518,799
Payroll Withholdings and Deductions	7,763
Unearned Revenue	430,535
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 4,652,289</u>

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

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Basis Texas Charter Schools, Inc. (BTCS) is a Texas nonprofit corporation that operates five open-enrollment charter schools, serving grades kindergarten through twelfth in San Antonio and Austin, 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. This includes treasury backed money market mutual funds.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2020

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. Other costs are allocated based on job descriptions and estimates of time spent on activities.

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, 2017.

Subsequent Events

Subsequent events were considered through December 14, 2020, which is the date the financial statements were available to be issued.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2020

NOTE 2 -- CASH

As of June 30, 2020, cash consisted FDIC insured accounts U.S. Treasury Security backed money market mutual funds as follows:

Checking Accounts:	
Insured by FDIC	\$ 250,000
Uncollateralized	6,880,730
US Treasury Security Backed Money Market Mutual Funds	<u>3,449,959</u>
Total Cash and Cash Equivalents	<u>\$ 10,580,689</u>

NOTE 3 -- ACCOUNTS RECEIVABLE

Accounts Receivable at June 30, 2020 were made up of the following:

Texas Education Agency	
Foundation School Program	\$ 3,013,646
Federal Funding	100,432
Other State Funding	58,490
Other	
Miscellaneous	<u>64,248</u>
Total Accounts Receivable	<u>\$ 3,236,816</u>

NOTE 4 -- PROMISES TO GIVE

As of June 30, 2020, BTCS had \$4,535,778 remaining on three conditional promises to give that will be recorded once the conditions (performance and growth metrics) are achieved. Of this amount, \$425,778 has been received in cash and is recorded as unearned revenue.

NOTE 5 -- CAPITAL ASSETS

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 \$233,038 for the year ended June 30, 2020. Capital assets at June 30, 2020 were as follows:

Land	\$ 4,196,000
Construction in Progress	2,949,247
Buildings	4,496,000
Leasehold Improvements	91,205
Furniture, Equipment & Textbooks	<u>1,331,326</u>
Total Property and Equipment	13,063,778
Less: Accumulated Depreciation	<u>(967,016)</u>
Property and Equipment - Net	<u>\$ 12,096,762</u>

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2020

NOTE 6 -- LONG-TERM DEBT

In March 2020, the Arlington Higher Education Finance Corporation issued conduit debt for the benefit of BTCS to purchase and renovate a new campus in San Antonio. BTCS has pledged the resulting property, future revenues and cash deposits as security for the bonds. The bonds mature serially through June 15, 2050 and bear interest at 4%. In addition, BTCS is required to maintain compliance with certain covenants, including monthly deposits to both a reserve fund and interest and sinking fund. BTCS has complied with these covenants. The liability is reported net of unamortized premiums and issuance costs as follows:

Outstanding Bonds Payable	\$ 12,465,000
Unamortized Bond Premiums	407,681
Unamortized Issuance Costs	<u>(577,870)</u>
Net Debt	<u>\$ 12,294,811</u>

Future debt service requirements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ -	\$ 498,600	\$ 498,600
2022	-	498,600	498,600
2023	180,000	498,600	678,600
2024	260,000	491,400	751,400
2025	270,000	481,000	751,000
2026-2030	1,525,000	2,234,000	3,759,000
2031-2035	1,855,000	1,903,200	3,758,200
2036-2040	2,265,000	1,500,800	3,765,800
2041-2045	2,755,000	1,010,000	3,765,000
2046-2050	<u>3,355,000</u>	<u>413,000</u>	<u>3,768,000</u>
	<u>\$ 12,465,000</u>	<u>\$ 9,529,200</u>	<u>\$ 21,994,200</u>

NOTE 7 -- NET ASSETS WITH RESTRICTIONS

Net assets with restriction as of June 30, 2020 consists of the following restrictions:

Foundation School Program	\$ 2,033,205
Teacher Compensation	484,337
San Antonio Campus Operations	<u>2,289,165</u>
Total Net Assets with Donor Restrictions	<u>\$ 4,806,707</u>

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2020

NOTE 7 -- NET ASSETS WITH RESTRICTIONS (CONT.)

Releases of net assets with restrictions during the year ending June 30, 2020 were as follows:

Foundation School Program	\$ 19,627,232
San Antonio Operations	345,506
Austin Operations	174,222
Teacher Compensation	699,634
Federal Programs	388,156
Other State Programs	227,003
Total Release From Restriction	\$ 21,461,753

NOTE 8 -- 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, 2019 reported a plan net position of \$158 billion with a total pension liability of \$210 billion. Net position of the plan represented 75% 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:

Year Ending August 31,	Member	State	Employer
2020	7.70%	7.50%	1.50%
2019	7.70%	6.80%	0.00%
2018	7.70%	6.80%	0.00%

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2020

NOTE 8 -- 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>
2020	\$ 13,398	\$ 13,050	\$ 8,901
2019	12,093	10,680	-
2018	11,756	10,382	-

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and salaries in excess of the statutory minimums.

Leased personnel of the management company (see Note 12) are not Texas employees and thus do not participate in the Teacher Retirement System.

NOTE 9 -- 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, 2019 reported a plan net position of \$1.3 billion with a total OPEB liability of \$49 billion. Net position of the plan represented 3% 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>
2020	0.65%	1.25%	0.75%
2019	0.65%	1.25%	0.75%
2018	0.65%	1.25%	0.75%

<u>Year Ending June 30,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
2020	\$ 468	\$ 900	\$ 495
2019	908	1,746	1,053
2018	672	1,292	632

NOTE 10 -- HEALTH CARE COVERAGE

During the year ended June 30, 2020, 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, 2020

NOTE 11 -- RELATED ENTITY

BASIS Charter Schools Inc. (BCSI) is the sole member of BTCS, has common management (BASIS Educational Group (See Note 12)), 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 13) 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 12 -- 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, 2020 were \$2.8 million for management fees, \$13.2 million for leased personnel and \$426 thousand for recruiting and school development.

NOTE 13 -- OPERATING LEASES

BTCS has operating leases with BCSI for three campuses in San Antonio. 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, 2020 related to the BCSI leases was \$3.5 million.

In addition, BTCS signed a lease for an Austin campus for the 2020-2021 school year. The lease requires monthly payments and terminates July 31, 2021. Future minimum lease payments as of June 30, 2020 are as follows:

Year Ending June 30,	Future Minimum Lease Payments		
	BCSI	Austin	Total
2021	\$3,528,624	\$ 160,000	\$3,688,624
2022	3,581,553	-	3,581,553
2023	3,635,276	-	3,635,276
2024	3,689,806	-	3,689,806
2025	3,745,153	-	3,745,153
2026-2030	19,585,466	-	19,585,466
2031-2035	21,099,107	-	21,099,107
2036-2040	22,729,732	-	22,729,732
2041-2045	24,486,376	-	24,486,376
2046-2050	23,959,361	-	23,959,361
2051-2052	3,074,171	-	3,074,171

BASIS TEXAS CHARTER SCHOOLS, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2020

NOTE 14 -- 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 15 -- LIQUIDITY AND AVAILABILITY

The following resources are available to fund future operations:

<i>Current Assets:</i>	
Unrestricted Cash and Cash Equivalents	\$ 7,130,730
Accounts Receivable:	3,236,816
Prepaid Expenses	150,367
Receivable from Related Entity BCSI	33,566
 <i>Current Liabilities:</i>	
Accounts Payable and Accrued Expenses	(3,292,464)
Payroll Withholdings and Deductions	(6,149)
Accrued Interest	(147,041)
Unearned Revenue	(425,811)
 <i>Adjustments:</i>	
Accounts Payable from Restricted Assets	1,349,560
Accrued Interest Payable from Restricted Assets	147,041
Net Assets with Donor Restrictions	<u>(2,773,502)</u>
<i>Resources Available to Fund Operations</i>	<u><u>\$ 5,403,113</u></u>

BTCS is substantially supported by the State of Texas Foundation School Program (FSP) which is based on student enrollment. While restricted for charter activities, the FSP program represents the main operations for the BTCS and is available for future operations. In addition, an initial FSP allotment of \$25.2 million will be available to fund the 2021 fiscal year.

NOTE 16 -- LITIGATION

BTCS was a defendant in a lawsuit over storm run-off onto a neighboring property. BTCS has been dismissed as a defendant without prejudice; however, the case is still in trial court and the plaintiff could try to bring additional claims against BTCS. Even if those claims are successful, the litigation is not expected to result in any significant financial impact.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2020

NOTE 17 -- COMMITMENT

BTCS entered into a construction contract for the new San Antonio Northeast campus for an estimate amount of \$2.49 million. As of June 30, 2020, \$2.15 million had been incurred, leaving an estimated commitment of \$340 thousand.

NOTE 18 -- SUBSEQUENT EVENTS

In August 2020, BTCS executed a loan agreement with a foundation for up to \$400,000. The note bears interest at 4% and requires interest only payments until the maturity date of July 31, 2025. As of the date of this report, BTCS has drawn \$350,000 on the loan.

In July 2020, the Texas Department of Transportation took a portion of land from the new San Antonio Northeast campus through eminent domain. BTCS was compensated \$385,000.

SUPPLEMENTARY INFORMATION

BASIS TEXAS CHARTER SCHOOLS, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

EXPENSES	
6100 Payroll	\$ 219,375
6200 Professional and Contracted Services	21,187,141
6300 Supplies and Materials	487,286
6400 Other Operating Costs	898,472
6500 Debt Service	<u>6,974</u>
Total Expenses	<u><u>\$ 22,799,248</u></u>

BASIS TEXAS CHARTER SCHOOLS, INC.
SCHEDULE OF CAPITAL ASSETS
JUNE 30, 2020

	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 10,373,693	\$ 206,996	\$ -
1510 Land and Improvements	4,196,000	-	-
1520 Buildings and Improvements	4,496,000	-	91,205
1531 Vehicles	-	-	-
1539 Furniture and Equipment > \$5,000	190,684	-	27,935
1549 Furniture and Equipment < \$5,000	822,106	148,036	142,565
1580 Construction in Progress	<u>2,949,247</u>	<u>-</u>	<u>-</u>
Total Property and Equipment	<u>\$ 23,027,730</u>	<u>\$ 355,032</u>	<u>\$ 261,705</u>

See Independent Auditor's Report.

BASIS TEXAS CHARTER SCHOOLS, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		Actual	Variance from <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>	Amounts (Budgetary)	
REVENUE				
<i>Local Revenue</i>				
5740 Other Local Revenues	\$ 3,699,111	\$ 3,997,613	\$ 4,017,864	\$ 20,251
<i>State Program Revenue</i>				
5810 Foundation School Program	21,232,494	21,197,024	21,094,070	(102,954)
5800 Other State Programs	226,584	182,803	177,186	(5,617)
<i>Federal Program Revenue</i>				
5920 Passed Through Texas Education Agency	273,500	384,118	388,156	4,038
TOTAL REVENUE	<u>25,431,689</u>	<u>25,761,558</u>	<u>25,677,276</u>	<u>(84,282)</u>
EXPENSES				
11 Instruction	9,508,000	9,430,000	9,869,571	(439,571)
13 Curriculum Development and Instructional Student Development	782,474	910,000	972,154	(62,154)
23 School Leadership	3,119,710	3,100,000	3,201,288	(101,288)
31 Guidance, Counseling and Evaluation Services	999,000	1,130,000	1,184,953	(54,953)
36 Extracurricular Activities	365,801	367,000	383,784	(16,784)
41 General Administration	3,457,888	3,152,000	2,085,724	1,066,276
51 Plant Maintenance	3,962,277	3,930,000	4,108,110	(178,110)
53 Data Processing Services	710,000	700,000	753,652	(53,652)
71 Debt Service	7,500	7,000	6,974	26
TOTAL EXPENSES	<u>22,912,650</u>	<u>22,726,000</u>	<u>22,566,210</u>	<u>159,790</u>
CHANGE IN NET ASSETS	<u>\$ 2,519,039</u>	<u>\$ 3,035,558</u>	3,111,066	<u>\$ 75,508</u>
Reconciliation to Net Change in Net Assets				
Perspective Differences:				
Unbudgeted Depreciation			<u>(233,038)</u>	
Change in Net Assets (GAAP Basis)			<u>\$ 2,878,028</u>	

See Independent Auditor's Report.

BASIS TEXAS CHARTER SCHOOLS, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2020

BUDGETARY BASIS

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 and presented as a reconciling item.

BASIS TEXAS CHARTER SCHOOLS, INC.
 CHARTER SCHOOL STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Totals</u>
REVENUE			
<i>Local Revenue</i>			
5740 Other Local Revenues	\$ 1,238,453	\$ 2,779,411	\$ 4,017,864
<i>State Program Revenue</i>			
5810 Foundation School Program	-	21,094,070	21,094,070
5820 Other State Programs	-	177,186	177,186
<i>Federal Program Revenue</i>			
5920 Passed Through Texas Education Agency	-	388,156	388,156
	<u>1,238,453</u>	<u>24,438,823</u>	<u>25,677,276</u>
Net Assets Released from Restrictions	<u>21,461,753</u>	<u>(21,461,753)</u>	<u>-</u>
TOTAL REVENUE	<u>22,700,206</u>	<u>2,977,070</u>	<u>25,677,276</u>
EXPENSES			
11 Instruction	10,037,813	-	10,037,813
13 Curriculum Development and Instructional Student Development	972,154	-	972,154
23 School Leadership	3,220,538	-	3,220,538
31 Guidance, Counseling and Evaluation Services	1,185,362	-	1,185,362
36 Extracurricular Activities	387,386	-	387,386
41 General Administration	2,089,313	-	2,089,313
51 Plant Maintenance	4,146,056	-	4,146,056
53 Data Processing	753,652	-	753,652
71 Debt Service	6,974	-	6,974
TOTAL EXPENSES	<u>22,799,248</u>	<u>-</u>	<u>22,799,248</u>
CHANGE IN NET ASSETS	(99,042)	2,977,070	2,878,028
NET ASSETS - BEGINNING OF YEAR	<u>5,224,259</u>	<u>1,829,637</u>	<u>7,053,896</u>
NET ASSETS - END OF YEAR	<u>\$ 5,125,217</u>	<u>\$ 4,806,707</u>	<u>\$ 9,931,924</u>

See Independent Auditor's Report.

**COMPLIANCE AND
INTERNAL CONTROL**



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2020, 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 December 14, 2020.

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.

December 14, 2020