

THE BASIC FUND

JUNE 30, 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The BASIC Fund

Independent Auditors' Report and Financial Statements

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A Century Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
THE BASIC FUND
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **THE BASIC FUND (the Fund)** which comprise the statement of financial position as of June 30, 2018, the related statements of activities, 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. 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 The Fund as of June 30, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Fund's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
February 20, 2019

The BASIC Fund

Statement of Financial Position

<i>June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 539,598	\$ 2,029,149
Interest receivable	61,292	55,780
Contributions receivable, net	1,968,363	1,988,440
Investments	18,754,761	15,102,786
Prepaid expenses	11,770	17,330
Fixed assets	16,913	12,153
Total assets	\$ 21,352,697	\$ 19,205,638
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 33,614	\$ 58,321
Total liabilities	33,614	58,321
Net Assets:		
Unrestricted	565,901	424,365
Temporarily restricted	20,753,182	18,722,952
Total net assets	21,319,083	19,147,317
Total liabilities and net assets	\$ 21,352,697	\$ 19,205,638

See accompanying notes to financial statements.

The BASIC Fund

Statement of Activities

Year Ended June 30, 2018 (with comparative totals for 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Revenue and Support:				
Contributions	\$	\$ 8,357,268	\$ 8,357,268	\$ 6,580,735
Investment income	141,535	79,736	221,271	209,347
Net assets released from restriction	6,406,774	(6,406,774)	-	-
Total revenue and support	6,548,309	2,030,230	8,578,539	6,790,082
Expenses:				
Scholarships	5,031,066		5,031,066	5,161,370
Management and general	1,375,707		1,375,707	1,093,747
Total expenses	6,406,773	-	6,406,773	6,255,117
Changes in Net Assets	141,536	2,030,230	2,171,766	534,965
Net Assets, beginning of year	424,365	18,722,952	19,147,317	18,612,352
Net Assets, end of year	\$ 565,901	\$ 20,753,182	\$ 21,319,083	\$ 19,147,317

See accompanying notes to financial statements.

The BASIC Fund

Statement of Cash Flows

<i>June 30, 2018 (with comparative totals for 2017)</i>	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,171,766	\$ 534,965
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	20,438	(77,379)
Depreciation	4,903	380
Amortization of pledge discount	(11,295)	6,638
Allowance for doubtful accounts	(14,500)	15,000
Changes in operating assets and liabilities:		
Contributions receivable	45,872	406,712
Interest receivable	(5,512)	(30,530)
Prepaid expense	5,560	4,866
Accounts payable	(24,707)	45,101
Cash provided by operating activities	2,192,525	905,753
Cash Flows from Investing Activities:		
Purchase of investments	(27,229,749)	(19,050,672)
Proceeds from sale of investments	23,557,336	17,864,761
Purchase of fixed assets	(9,663)	(10,867)
Proceeds from disposal of fixed assets		6,191
Cash (used) by investing activities	(3,682,076)	(1,190,587)
Change in Cash	(1,489,551)	(284,834)
Cash and Cash Equivalents, beginning of year	2,029,149	2,313,983
Cash and Cash Equivalents, end of year	\$ 539,598	\$ 2,029,149

See accompanying notes to financial statements.

The BASIC Fund

Notes to Financial Statements

Note 1 - Nature of Fund:

The BASIC Fund (the Fund) is a privately funded program dedicated to broadening the educational opportunities for children by helping low-income families in Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties afford the cost of tuition at private or parochial schools of their choice. The scholarships are offered to students in kindergarten through eighth grade.

The Fund receives the majority of its contributions from individuals and foundations. The Board of Directors, through their personal contributions, fund the administrative and general expenses of the Fund.

Continuing scholarship support is available to students, as long as they meet all academic and admission requirements of the school to which they apply and as long as their families remain financially eligible under the Fund's guidelines.

Note 2 - Significant Accounting Policies:

a. Basis of Presentation and Description of Net Assets

The financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. These net assets are intended for use of management and the Board of Directors for educational scholarships and general operations. The Board of the Fund has designated the majority of its funds for ongoing support of the Fund's scholarship activity.

Temporarily Restricted Net Assets - the portion of net assets of which use by the Fund is limited by donor - imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Fund.

Permanently Restricted Net Assets - the portion of net assets of which use by the Fund is limited by donor - imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Fund. The Fund has no permanently restricted net assets.

The BASIC Fund

Notes to Financial Statements

b. Recognition of Revenue

Contributions are recorded as revenue at their fair value when the promise to give to the Fund is made. Contributions with donor restrictions are reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Certain contributions restricted by the donor are reported as an increase in unrestricted net assets if the restriction is released in the same reporting period in which the support is received.

Management reviews outstanding contributions receivable on a regular basis and maintains an allowance for doubtful accounts for estimated losses resulting from the inability of donors to make payments. This allowance is based on historical experience and identification of contribution-specific collectibility concerns. Losses incurred from uncollectible donations have not historically been material to the Fund.

c. Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and money market funds.

d. Investments

Investments consist primarily of certificates of deposit and mutual funds.

Investments are recorded at fair value, with realized and unrealized gains and losses reflected in the Statement of Activities.

e. Fair Value Measurements

The Fund carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs. Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Fund's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the assets and liabilities measured at fair value.

The BASIC Fund

Notes to Financial Statements

f. Fixed Assets

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 5 years. Renewals and betterments are capitalized; maintenance and repairs are charged to expense as incurred.

g. Donated Goods and Services

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. A number of unpaid volunteers have made significant contributions of their time to the Fund. However, the value of these services is not reflected in these statements because the criteria for recognition have not been satisfied.

h. Income Taxes

The Fund is a tax-exempt organization under Internal Revenue Service Code Section 501(c)(3) and the California tax code.

The Fund follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 for accounting for uncertainty in income taxes. Management evaluated the Fund's tax positions and concluded that the Fund had maintained its tax-exempt status and had taken no uncertain tax positions that would require adjustments to the financial statements to comply with provisions of this guidance.

i. Use of Estimates

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

j. Management and General

Management and general represent expenses for salary and overhead related expenses incurred in administering the Fund's scholarship program. During the year ended June 30, 2018, \$167,625 was spent on special marketing and development undertakings that were fully offset by incremental restricted contributions from donors.

The BASIC Fund

Notes to Financial Statements

k. Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fund's financial statements for the year ended June 30, 2017 from which the summarized information was derived.

l. New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee will be required to recognize right-to-use assets and liabilities on their statement of financial position for all leases with lease terms of more than twelve months. The ASU is effective for the Fund beginning July 1, 2020. Early application is permitted.

In August 2016, the FASB issued ASU 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. This ASU sets forth the FASB's modifications to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this update are effective for the Fund as of July 1, 2018. Early application is permitted.

The Fund is currently evaluating the impact of these pronouncements on its financial statements.

m. Subsequent Events

The Fund has reviewed the results of activities for the period of time from its fiscal year ended June 30, 2018 through February 20, 2019, 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 nor subsequent events have occurred, the nature of which would require disclosure.

The BASIC Fund

Notes to Financial Statements

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

Due within one year	\$ 1,456,028
Due after one year	559,450
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Subtotal	2,015,478
Less unamortized discount	(11,615)
Less allowance for doubtful accounts	(35,500)
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	\$ 1,968,363

The long-term portion of contributions receivable has been discounted using a 1.5% discount rate.

At June 30, 2018, contributions receivable includes approximately \$237,250 pledged from the Board of Directors.

For Program Years 2008 to 2018, Children's Scholarship Fund has expressed conditional intentions to match scholarship spending, on a one to five basis, with a capped amount defined for each Program Year. As of June 30, 2018, a cumulative \$2,483,000 remains available to the BASIC Fund under these grants, contingent on satisfaction of future scholarship spending. These amounts are recognized as contributions revenue upon receipt which coincides with the satisfaction of the one to five scholarship spending match.

Note 4 - Investments and Fair Value Measurements:

The amortized cost and estimated fair values of the major components of investment are as follows:

June 30, 2018	Amortized Cost	Fair Value
Certificates of deposit	\$ 16,635,893	\$ 16,611,880
Government Securities	1,232,250	1,232,737
Mutual Funds	783,334	910,144
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	\$ 18,651,477	\$ 18,754,761

At June 30, 2018, all investments are valued under FASB ASC 820 using level 1 inputs.

The BASIC Fund

Notes to Financial Statements

Net investment income is comprised of the following at June 30, 2018:

Interest	\$ 241,709
Unrealized and realized losses	(20,438)
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	\$ 221,271

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are primarily available for scholarship awards through June 30, 2020 for a total of \$20,753,182. Included in that amount is a \$1,000,000 contribution, which along with its related investment earnings, will be used to support scholarships and operations, with a 5% draw each year from the combined principal and earnings, thereon, as needed.

As of June 30, 2018, net assets of \$6,406,774 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 6 - Related Party Transactions:

The Fund recorded contribution revenue of approximately \$2,078,750 from its Board of Directors for the year ended June 30, 2018.

Note 7 - Concentration of Credit Risk and Support:

The Fund has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of investments and contributions receivable.

Investments consist of certificates of deposit and mutual funds.

At June 30, 2018, four donors made up an approximate 40% of the Fund's total contributions and three donors owe approximately 63% of the Fund's total outstanding pledge receivables. The credit risk associated with receivables is substantially mitigated by the number of entities comprising the receivable balance.

The BASIC Fund

Notes to Financial Statements

Note 8 - Commitments and Contingencies:

The Fund has an operating lease agreement for its headquarters in Oakland through July 2020, which requires minimum base lease payments.

June 30,		
2019	\$	96,644
2020		99,541
2021		8,524
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	\$	204,709
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Rental expense under these agreements for the year ended June 30, 2018 was approximately \$93,826.