

THE BASIC FUND

JUNE 30, 2019

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, 2019, 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.

Auditors' 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Effect of Adopting New Accounting Standard

As described in Note 2, the Fund adopted the Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of certain information as permitted by the ASU. Our opinion is not modified with respect to that matter.

Hood & Strong LLP

San Francisco, California
April 15, 2020

The BASIC Fund

Statement of Financial Position

<i>June 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Assets:		
Cash and cash equivalents	\$ 769,020	\$ 539,598
Interest receivable	76,897	61,292
Contributions receivable, net	1,572,415	1,968,363
Investments	18,693,877	18,754,761
Prepaid expenses	44,525	11,770
Fixed assets	20,003	16,913
Total assets	\$ 21,176,737	\$ 21,352,697
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 32,803	\$ 33,614
Total liabilities	32,803	33,614
Net Assets:		
Without donor restrictions	959,572	565,901
With donor restrictions	20,184,362	20,753,182
Total net assets	21,143,934	21,319,083
Total liabilities and net assets	\$ 21,176,737	\$ 21,352,697

See accompanying notes to financial statements.

The BASIC Fund

Statement of Activities

Year Ended June 30, 2019 (with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support:				
Contributions		\$ 6,944,838	\$ 6,944,838	\$ 8,357,268
Investment income	\$ 393,671	57,577	451,248	221,271
Net assets released from restriction	7,571,235	(7,571,235)	-	-
Total revenue and support	7,964,906	(568,820)	7,396,086	8,578,539
Expenses:				
Scholarships and programs	6,875,059		6,875,059	5,768,547
Fundraising	560,001		560,001	534,339
Management and General	136,175		136,175	103,887
Total expenses	7,571,235	-	7,571,235	6,406,773
Changes in Net Assets	393,671	(568,820)	(175,149)	2,171,766
Net Assets, beginning of year	565,901	20,753,182	21,319,083	19,147,317
Net Assets, end of year	\$ 959,572	\$ 20,184,362	\$ 21,143,934	\$ 21,319,083

See accompanying notes to financial statements.

The BASIC Fund

Statement of Functional Expenses

Year Ended June 30, 2019 (with comparative totals for 2018)

	Supporting Services			2019 Total	2018 Total
	Programs	Fundraising	Management and General		
Grants and awards	\$ 6,133,232			\$ 6,133,232	\$ 5,031,066
Salaries and employee benefits	472,758	\$ 369,989	\$ 52,961	895,708	831,141
Contract and professional services	147,637	135,229	41,126	323,992	316,997
Travel and meetings	3,362	2,051	20,300	25,713	17,950
Printing, postage and supplies	28,191	13,560	1,005	42,756	43,647
Rent, utilities and maintenance	68,432	29,620	4,086	102,138	93,282
Depreciation and amortization	4,732	2,048	282	7,062	4,903
Telecommunication	9,553	4,135	570	14,258	10,818
Insurance	3,370	3,369	3,369	10,108	15,162
Other expenses	3,792		12,476	16,268	41,807
	\$ 6,875,059	\$ 560,001	\$ 136,175	\$ 7,571,235	\$ 6,406,773

See accompanying notes to financial statements.

The BASIC Fund

Statement of Cash Flows

<i>Year Ended June 30, 2019 (with comparative totals for 2018)</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ (175,149)	\$ 2,171,766
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(42,175)	20,438
Depreciation	7,062	4,903
Amortization of pledge discount	3,421	(11,295)
Allowance for doubtful accounts	11,000	(14,500)
Changes in operating assets and liabilities:		
Contributions receivable	381,527	45,872
Interest receivable	(15,605)	(5,512)
Prepaid expense	(32,755)	5,560
Accounts payable and accrued expenses	(811)	(24,707)
Cash provided by operating activities	136,515	2,192,525
Cash Flows from Investing Activities:		
Purchase of investments	(23,527,201)	(27,229,749)
Proceeds from sale of investments	23,630,260	23,557,336
Purchase of fixed assets	(10,152)	(9,663)
Cash provided (used) by investing activities	92,907	(3,682,076)
Change in Cash and Cash Equivalents	229,422	(1,489,551)
Cash and Cash Equivalents, beginning of year	539,598	2,029,149
Cash and Cash Equivalents, end of year	\$ 769,020	\$ 539,598

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 two classes of net assets: without donor restrictions and with donor restriction.

Net Assets Without Donor Restrictions - the portion of net assets that is without donor - imposed stipulations. These net assets are intended for use of management and the Board of Directors for educational scholarships and general operations.

Net Assets With Donor Restrictions - the portion of net assets of which use by the Fund is limited by donor - imposed stipulations that can be fulfilled and removed by actions of the Fund, primarily through payment of educational scholarships. There is no 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. Accordingly, the Fund has no net assets that are perpetual in nature.

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 net assets with donor restrictions. When a restriction expires (that is, when a stipulated purpose restriction is accomplished) net assets with donor restrictions are reclassified to net assets without donor restrictions 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. Contributions receivable due in more than one year are reflected at the value of estimated future cash flows using a discount rate of 1.5%.

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, government securities, 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 accounting principles generally accepted 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.

The BASIC Fund

Notes to Financial Statements

k. Functional Expense Allocation

The costs of providing programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and benefits are allocated using estimates of time and effort; components of occupancy, insurance and depreciation expenses are allocated based on headcount.

l. 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, 2018 from which the summarized information was derived.

m. New Accounting Pronouncements

Pronouncement adopted:

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The Fund adopted this ASU as of July 1, 2018. Accordingly, the accounting change has been retrospectively applied to all periods presented with the exception of the omission of liquidity and availability of resource information as permitted by the ASU.

The adoption of this accounting standard changed the terminology used in describing the Fund's net assets and added a new disclosure (Note 9) that discusses the Fund's availability of financial assets and liquidity.

Pronouncements effective in the future:

In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842)*. The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Fund, since it is not deemed a public business entity, for its fiscal year beginning July 1, 2021 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs.

The BASIC Fund

Notes to Financial Statements

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The amendments in the update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Early application of the amendments in the update is permitted and applied prospectively.

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

n. Subsequent Events

The Fund has reviewed the results of activities for the period of time from its fiscal year ended June 30, 2019 through April 15, 2020, 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.

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

Due within one year	\$ 1,244,701
Due after one year	389,250
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Subtotal	1,633,951
Less unamortized discount	(15,036)
Less allowance for doubtful accounts	(46,500)
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	\$ 1,572,415
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The long-term portion of contributions receivable has been discounted using a 1.5% discount rate.

The BASIC Fund

Notes to Financial Statements

At June 30, 2019, contributions receivable includes approximately \$368,000 pledged from the Board of Directors.

For Program Years 2008 to 2019, 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, 2019, a cumulative \$1,872,234 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, 2019	Amortized Cost	Fair Value
Certificates of deposit	\$ 15,581,999	\$ 15,600,832
Government securities	1,830,681	1,830,536
Mutual funds	1,120,410	1,262,509
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	\$ 18,533,090	\$ 18,693,877

At June 30, 2019, all investments are valued under FASB ASC 820 with government securities and mutual funds using level 1 inputs and certificates of deposits using level 2 inputs.

Net investment income is comprised of the following at June 30, 2019:

Interest	\$ 409,073
Unrealized and realized gains	42,175
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	\$ 451,248

The BASIC Fund

Notes to Financial Statements

Note 5 - Net Assets with Donor Restrictions:

Net assets with donor restrictions that are primarily available for scholarship awards total \$20,184,362. 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, 2019, net assets of \$7,571,235 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 6 - Related Party Transactions:

The Fund recorded contribution revenue of approximately \$2,410,691 from its Board of Directors for the year ended June 30, 2019.

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, government securities, and mutual funds.

At June 30, 2019, two donors made up an approximate 27% of the Fund's total contributions and four donors owe approximately 67% 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.

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 as follows:

June 30,	
2020	\$ 99,541
2021	8,524
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	\$ 108,065

Rental expense under these agreements for the year ended June 30, 2019 was approximately \$64,509.

The BASIC Fund

Notes to Financial Statements

Note 9 - Availability and Liquidity:

As of June 30, 2019, the Fund's financial assets available within one year for general expenditures are as follows:

Cash	\$ 769,020
Receivables	1,649,312
Investments	18,693,977
	<hr/>
	21,112,209
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Less amounts not available to be used within one year:	
Net assets with donor restrictions	(20,184,362)
Add net assets with purpose restrictions to be met within one year	6,271,862
	<hr/>
Total available for general expenditures	\$ 7,199,709

The Fund's goal is generally to maintain financial assets to meet 90 days of operating expenses, which is budgeted at approximately \$305,000. As part of its liquidity plan, excess cash is invested in certificate of deposits, government securities and mutual funds.