

THE BASIC FUND

JUNE 30, 2020

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

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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, 2020, 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, 2020, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
April 12, 2021

The BASIC Fund

Statement of Financial Position

<i>June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
Assets		
Cash and cash equivalents	\$ 1,581,386	\$ 769,020
Interest receivable	80,421	76,897
Contributions receivable, net	1,724,092	1,572,415
Investments	19,748,728	18,693,877
Prepaid expenses	37,696	44,525
Fixed assets	62,487	20,003
Total assets	\$ 23,234,810	\$ 21,176,737
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 63,699	\$ 32,803
Paycheck Protection Plan loan	137,600	
Total liabilities	201,299	32,803
Net Assets:		
Without donor restrictions	1,328,386	959,572
With donor restrictions	21,705,125	20,184,362
Total net assets	23,033,511	21,143,934
Total liabilities and net assets	\$ 23,234,810	\$ 21,176,737

See accompanying notes to financial statements.

The BASIC Fund

Statement of Activities

Year Ended June 30, 2020 (with comparative totals for 2019)

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support:				
Contributions		\$ 8,988,126	\$ 8,988,126	\$ 6,944,838
Investment income	\$ 368,814	5,271	374,085	451,248
Net assets released from restriction	7,472,634	(7,472,634)	-	-
Total revenue and support	7,841,448	1,520,763	9,362,211	7,396,086
Expenses:				
Programs	6,919,663		6,919,663	6,875,059
Fundraising	441,162		441,162	560,001
Management and general	111,809		111,809	136,175
Total expenses	7,472,634	-	7,472,634	7,571,235
Changes in Net Assets	368,814	1,520,763	1,889,577	(175,149)
Net Assets, beginning of year	959,572	20,184,362	21,143,934	21,319,083
Net Assets, end of year	\$ 1,328,386	\$ 21,705,125	\$ 23,033,511	\$ 21,143,934

See accompanying notes to financial statements.

The BASIC Fund
Statement of Functional Expenses

Year Ended June 30, 2020 (with comparative totals for 2019)

	<u>Supporting Services</u>			2020 Total	2019 Total
	Programs	Fundraising	Management and General		
Grants and awards	\$ 6,246,633			\$ 6,246,633	\$ 6,133,232
Salaries and employee benefits	473,711	\$ 331,804	\$ 67,016	872,531	895,708
Contract and professional services	74,400	35,317	29,210	138,927	323,992
Travel and meetings	17,166	7,430	1,025	25,621	25,713
Printing, postage and supplies	18,628	8,062	1,112	27,802	42,756
Rent, utilities and maintenance	68,914	29,828	4,114	102,856	102,138
Depreciation and amortization	2,173	941	130	3,244	7,062
Telecommunication	8,641	8,641	8,641	25,923	14,258
Insurance	9,397	4,068	561	14,026	10,108
Other expenses		15,071		15,071	16,268
	\$ 6,919,663	\$ 441,162	\$ 111,809	\$ 7,472,634	\$ 7,571,235

See accompanying notes to financial statements.

The BASIC Fund

Statement of Cash Flows

<i>Year Ended June 30, 2020 (with comparative totals for 2019)</i>	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,889,577	\$ (175,149)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	56,677	(42,175)
Depreciation	3,244	7,061
Amortization of pledge discount	355	3,421
Allowance for doubtful accounts		11,000
Changes in operating assets and liabilities:		
Contributions receivable	(152,032)	381,527
Interest receivable	(3,524)	(15,605)
Prepaid expenses	6,829	(32,755)
Accounts payable and accrued expenses	(14,832)	(811)
Cash provided by operating activities	1,786,294	136,514
Cash Flows from Investing Activities:		
Purchase of investments	(27,633,264)	(23,527,201)
Proceeds from sale of investments	26,521,736	23,630,260
Purchase of fixed assets		(10,151)
Cash (used) provided by investing activities	(1,111,528)	92,908
Cash Flows from Financing Activities:		
Paycheck Protection Program loan borrowing	137,600	-
Cash provided by financing activities	137,600	-
Change in Cash and Cash Equivalents	812,366	229,422
Cash and Cash Equivalents, beginning of year	769,020	539,598
Cash and Cash Equivalents, end of year	\$ 1,581,386	\$ 769,020

Non-cash Investing Activities:

Fixed assets included in accounts payable \$ 45,728

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. The Board of the Fund has designated the majority of its funds for ongoing support of the Fund's scholarship activity.

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 net assets without donor restrictions 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 collectability 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, equities 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 in connection with COVID-19.

j. Management and General

Management and general represent expenses for salary and overhead related expenses incurred in administering the Fund's scholarship program and general operations.

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, 2019 from which the summarized information was derived.

l. New Accounting Pronouncements

Pronouncement adopted:

In June 2018, the FASB issued Accounting Standards Update (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. The ASU was adopted as of July 1, 2019. The impact of adopting this guidance is reflected in the financial statements and did not have a significant impact on the financial statement disclosures.

Pronouncement 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. In April of 2020 the FASB voted to further delay the effective date of the lease accounting standard for private not-for-profit entities because of challenges related to the coronavirus pandemic. As a result, the standard will be effective for the Fund, for its fiscal year beginning July 1, 2022 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 Fund is currently evaluating the impact of this pronouncement on its financial statements.

The BASIC Fund

Notes to 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, 2020 through April 12, 2021, 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, 2020:

Due within one year	\$ 1,043,000
Due after one year	742,983
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Subtotal	1,785,983
Less unamortized discount	(15,391)
Less allowance for doubtful accounts	(46,500)
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	\$ 1,724,092
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The long-term portion of contributions receivable has been discounted using a 1.5% discount rate.

At June 30, 2020, contributions receivable includes approximately \$152,000 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, 2020, a cumulative \$2,196,988 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.

The BASIC Fund

Notes to Financial Statements

Note 4 - Investments and Fair Value Measurements:

The amortized cost and estimated fair values of the major components of investments are as follows at June 30, 2020:

June 30, 2020	Amortized Cost	Fair Value
Certificates of deposit	\$ 9,157,521	\$ 9,187,892
Government securities	9,740,224	9,769,616
Equities	627,271	664,215
Mutual funds	120,000	127,005
	<hr/>	<hr/>
	\$ 19,645,016	\$ 19,748,728

At June 30, 2020, all investments are valued using level 1 inputs.

Net investment income is comprised of the following for the year ended June 30, 2020:

Interest	\$ 430,762
Unrealized and realized losses	(56,677)
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	\$ 374,085

Note 5 - Net Assets with Donor Restrictions:

Net assets with donor restrictions at June 30, 2020 are primarily available for scholarship awards for a total of \$21,705,125. 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, 2020, net assets of \$7,472,634 were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 6 - Related Party Transactions:

The Fund recorded contribution revenue of approximately \$1,481,400 from its current Board of Directors for the year ended June 30, 2020.

The BASIC Fund

Notes to Financial Statements

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, fixed income and equity securities, and mutual funds.

At June 30, 2020, four donors made up an approximate 44% of the Fund's total contributions and two donors owe approximately 64% 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, and has entered into a new operating lease in the same building beginning August 2020 through July 2028. Both leases require minimum base lease payments. The new lease allows for free rent for five months and a rent credit of \$42,000 for tenant improvements paid by the Fund.

Future minimum lease payments under these leases are as follows:

June 30,	
2021	\$ 26,860
2022	132,518
2023	136,239
2024	140,174
2025	144,023
Thereafter	320,846
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	\$ 900,660

Rental expense under these agreements for the year ended June 30, 2020 was approximately \$92,777.

The BASIC Fund

Notes to Financial Statements

Note 9 - Paycheck Protection Plan Loan:

As of April 17, 2020, the Fund received loan proceeds in the aggregate amount of approximately \$137,600 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses. A portion of the loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries. No collateral or guarantees were provided in connection with the PPP loans.

Any unforgiven portion of the PPP loans matures on April 17, 2022, and includes fixed annual interest at a rate of 1%. The Fund has submitted an application for forgiveness and while the Fund believes it has used the proceeds for purposes consistent with the PPP and will meet the conditions for forgiveness of the loans, the Fund has no assurance that upon review of submission, the Fund will be approved for forgiveness. Accordingly, the Fund has accounted for the PPP loan as an outstanding liability as of June 30, 2020 and will apply gain contingency accounting in future periods when all uncertainties as to the Fund’s eligibility for the loan forgiveness are resolved. No accrual for interest was recorded in the period ended June 30, 2020 given the short duration the loan has been outstanding, and immateriality of any potential interest expense owed.

Note 10 - Availability and Liquidity:

As of June 30, 2020, the Fund’s financial assets available within one year for general expenditures are as follows:

Cash	\$ 1,581,386
Receivables	1,043,000
Investments	19,748,728
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	22,373,114
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Less amounts not available to be used within one year:	
Net assets with donor restrictions	(21,705,125)
Add net assets with purpose restrictions to be met within one year	8,287,487
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Total available for general expenditures	\$ 8,955,476

The Fund’s goal is generally to maintain financial assets to meet 90 days of operating expenses, which is budgeted at approximately \$340,700. As part of its liquidity plan, excess cash is invested in certificates of deposits, government securities and mutual funds.

The BASIC Fund

Notes to Financial Statements

Note 11 - Impact of COVID-19:

An outbreak of respiratory disease caused by a novel (new) coronavirus was first detected in China and has now been detected in more than 100 locations internationally, including in the United States. The virus has been named “SARS-CoV-2” and the disease it causes has been named “coronavirus disease 2019” (abbreviated “COVID-19”). On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic.

On March 16, 2020, the individual governments of the Greater San Francisco Bay Area announced a mandatory shelter in place order for all residents in the area due to the COVID-19 pandemic. The orders required that all non-essential businesses close until the orders are lifted. The Fund modified its operations in accordance with the health department requirements and continues to evaluate the impact of the pandemic on its ongoing operations.