BASIS SCHOOLS INC.

11485 n 136th street
suite 109
scottsdale, az 85259

Charter Holder's Financial Sustainability

BASIS Tucson is the flagship BASIS School, founded in 1998 and is rated among America's top Public High Schools by Newsweek, U. S. News & World Report, and The Washington Post. BASIS Tucson is one of six schools currently operated by BASIS School, Inc. (BSI), an Arizona not-for-profit organization.

BASIS Tucson continues to demonstrate a sustainable operation as evidenced by the Fiscal Year 2011 audit report. BASIS School, Inc. additionally supports this strength through its ability to grow from two schools in 2009 to three in 2010 and six in 2011. This growth is based upon its sound management and fiscal structure and is supported by outside bond markets investing in the expansion of the school facilities.

BASIS Tucson continues to reflect positive operational results and has never run into a cash deficit over the course of its existence. For example, the cash and cash equivalents at fiscal year-end have increased each year. Specifically, the cash and cash equivalents at fiscal year-end 2009 was $78,426, it increased to $288,145 in FY 2010, and increased again in FY 2011 to $525,120.

The Fiscal Year 2010 audit reflects the total change in net assets of $297,383 for BASIS Tucson with a reduction in the ending net deficit from $465,315 in FY 2009 to $167,932 in Fiscal Year 2010. The Fiscal Year 2011 audit continues to reflect this positive trend with total ending net assets for BASIS Tucson of $113,763, an increase in ending net assets of $281,695 over the prior year.

Due to our local and national reputation, accelerated liberal arts curriculum, excellent state report cards and exceptional test scores BASIS Tucson draws its student enrollment form a broad geographical area and maintains a waiting list of interested students. This consistent student base provides stability to the on-going operation of the school.

BASIS SCHOOL, INC.

Financial Statements,
Supplementary Information
and
Auditors' Reports

Year Ended June 30, 2011

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Accountants

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Independent Auditors' Report

To the Board of Directors
BASIS School, Inc.
Scottsdale, Arizona

We have audited the accompanying statement of financial position of BASIS School, Inc. (the Firm), a nonprofit organization, as of June 30, 2011, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Firm's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BASIS School, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 30, 2011, on our consideration of the Firm's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Firm taken as a whole. The accompanying supplementary schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tester & Chapman P.C.

December 30, 2011

BASIS SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS

Current Assets	
Cash and cash equivalents	$ 987,861
Accounts receivable	46,784
Prepaid expenses	5,077
Due from governmental entities	1,156,022
Restricted cash - prepaid interest	889,812
Restricted cash - operating reserve and insurance	383,701
Restricted cash - accrued construction costs	4,115,188
Other current assets	227
Total Current Assets	7,584,672
Noncurrent Assets	
Loan issuance costs, net of accumulated amortization of $131,744	1,566,715
Restricted cash	2,165,177
Property and equipment - net	33,373,643
Other noncurrent assets	3,666
Total Noncurrent Assets	37,109,201
Total Assets	$ 44,693,873

LIABILITIES AND NET ASSETS (DEFICIT)

Current Liabilities	
Accounts payable and accrued expenses	$ 281,848
Accrued construction costs	4,115,188
Deferred revenues	91,570
Deposits held for others	895,790
Due to government	81
Current maturities of long term debt	250,000
Total Current Liabilities	5,634,477
Noncurrent Liabilities	
Long-term debt, net of current maturities	39,085,000
Total Noncurrent Liabilities	39,085,000
Total Liabilities	44,719,477
Net Assets	
Unrestricted (deficit)	(502,808)
Temporarily restricted	477,204
Total Net Assets (Deficit)	(25,604)
Total Liabilities and Net Assets (Deficit)	$ 44,693,873

The accompanying notes are an integral part of these statements.

BASIS SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
State Equalization	$ 10,926,012		$ 10,926,012
Federal grants	1,238,058		1,238,058
State grants	546,123		546,123
Extra-curricular activities fees tax credit contributions		$ 286,971	286,971
Other contributions	202,000	473,270	675,270
Program and other revenue	646,270		646,270
Net assets released from restriction	588,113	(588,113)	
Total Revenue and Support	14,146,576	172,128	14,318,704
Program Services Expenses			
Salaries and wages, leased employees	5,821,351		5,821,351
Pension plan contributions, leased employees	194,830		194,830
Other employee benefits, leased employees	463,985		463,985
Payroll taxes, leased employees	429,598		429,598
Program management fees	1,230,565		1,230,565
Legal fees	17,466		17,466
Other services fees	569,143		569,143
Advertising and promotion	29,111		29,111
Office expenses	461,763		461,763
Occupancy	412,058		412,058
Travel	14,274		14,274
Depreciation	637,083		637,083
Insurance	69,062		69,062
Other expenses	113,871		113,871
Total Program Services Expenses	10,464,160		10,464,160
Management and General Expenses			
Salaries and wages, leased employees	200,826		200,826
Pension plan contributions, leased employees	9,453		9,453
Other employee benefits, leased employees	11,592		11,592
Payroll taxes, leased employees	16,645		16,645
General management fees	1,333,110		1,333,110
Legal fees	10,286		10,286
Accounting fees	21,590		21,590
Other services fees	22,318		22,318
Advertising and promotion	11,525		11,525
Occupancy	22,789		22,789
Travel	35,286		35,286
Depreciation	3,434		3,434
Interest	1,348,772		1,348,772
Amortization	47,399		47,399
Insurance	6,350		6,350
Other expenses	41,140		41,140
Total Management and General Expenses	3,142,515		3,142,515
Fundraising Expenses			
Salaries and wages, leased employees	43,125		43,125
Pension plan contributions, leased employees	1,294		1,294
Other employee benefits, leased employees	3,269		3,269
Payroll taxes, leased employees	3,662		3,662
Other expenses	28,451		28,451
Total Fundraising Expenses	79,801		79,801
Total Expenses	13,686,476		13,686,476
Change in Net Assets (Deficit)	460,100	172,128	632,228
Net Assets (Deficit), July 1, 2010	(962,908)	305,076	(657,832)
Net Assets (Deficit), June 30, 2011	$ (502,808)	$ 477,204	$ (25,604)

The accompanying notes are an integral part of these statements.

BASIS SCHOOL, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities:	
Change in net assets (deficit)	$ 632,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	640,517
Amortization of loan issuance costs	47,399
Changes in:	
Accounts receivable	(21,160)
Prepaid expenses	68,603
Due from governmental entities	(1,079,840)
Other accrued revenues	19,008
Other assets	25,552
Accounts payable and accrued expenses	205,844
Deferred revenues	65,120
Deposits held for others	473,425
Other current liabilities	(272)
Net cash and cash equivalents provided by operating activities	1,076,424
Cash Flows From Investing Activities:	
Net deposits to/from restricted cash	(4,376,481)
Purchase of property and equipment	(15,480,067)
Net cash and cash equivalents used by investing activities	(19,856,548)
Cash Flows From Financing Activities:	
Proceeds from loans	19,045,367
Principal payments on long-term debt	(188,102)
Net cash and cash equivalents provided by financing activities	18,857,265
Net increase in cash and cash equivalents	77,141
Cash and cash equivalents, July 1, 2010	910,720
Cash and cash equivalents, June 30, 2011	$ 987,861
Supplemental data:	
Cash paid for interest on long-term debt	$1,348,772
Capitalized interest	$ 525,992

The accompanying notes are an integral part of these statements.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS School, Inc. (the Firm), an Arizona not-for-profit organization, was formed in fiscal year 1998-99 and opened BASIS School - Tucson that year. The Firm opened BASIS School - Scottsdale in fiscal year 2003-04 and BASIS School - Oro Valley in fiscal year 2010-11. To efficiently manage the schools, the Firm entered into a management services agreement with BASIS Educational Group Inc. (BEG, a related party) on June 25, 2009. The Firm provides educational services to students in fifth through twelfth grades. The Firm operates under six charter contracts with the Arizona State Board for Charter Schools, which mandates policy and operational guidelines. Subsequent to year-end, the Firm opened BASIS School - Chandler, BASIS School - Flagstaff, and BASIS School - Peoria.

The significant accounting policies of the Firm are as follows:

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) topic of Not-for-Profit Entities. The Firm is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Firm does not have any permanently restricted net assets at June 30, 2011.

Use of Estimates: In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions: The Firm follows the FASB ASC subtopic of revenue recognition for *Not-for-Profit Entities*. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support based on the existence and/or nature of any donor restrictions. All donor restricted support is reported as an increase in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. When a donor 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

NOTE 1 - BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Due from Governmental Entities: Due from governmental entities consists mainly of state approved payments to the Firm to operate the charter schools. The Firm has never experienced any losses due to non-payment, and expects none on the June 30, 2011 balances, and therefore has not established an allowance.

Accounts Receivable: Accounts receivable consist mainly of receivables related to auxiliary activities and student fees. The number and balance of uncollectible accounts presently and in the past has been immaterial, therefore no allowance has been established.

Property and Equipment: Land, buildings and improvements and leasehold improvements with an initial cost of $3,000 or more, and vehicles, furniture and equipment with an initial cost of $300 or more, with an estimated life of one year or more, are capitalized. Textbooks with an estimated life of one year of more are capitalized. Assets are stated at cost. Depreciation and amortization is provided on the straight-line basis over the following estimated useful lives of the respective assets:

Buildings and improvements	40 years
Vehicles, furniture and equipment	3-5 years
Textbooks	3 years
Leasehold improvements	life of the lease

Deposits Held For Others: Deposits held for others consists of student deposits required for the use of textbooks.

Income Taxes: The Firm is exempt from federal income taxes as an organization other than a private foundation under Section 501(c)(3) of the Internal Revenue Code.

Advertising: Advertising costs are expensed as incurred.

Expense Allocation: The costs of providing various programs and other 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.

Loan Issuance Costs: Loan issuance costs and origination fees are deferred and amortized over the term of the loans.

NOTE 2 - RESTRICTED CASH

Restricted cash consists of required deposits associated with the long-term debt (see note 5). Initial operating reserve funds may be used if normal operations of the Firm become impaired. Project funds may be used solely to complete construction on the new campuses. Bond funds may be used to pay the interest coming due. The accounts are held by U.S. Bank National Association as trustee. Restricted cash as of June 30, 2011 is as follows:

Series 2006 Bond	
Initial operating reserve fund	$ 140,286
Tax and insurance fund	6,884
Series 2007 Bond	
Initial operating reserve fund	236,447
Series 2010 Bond	
Initial operating reserve fund	89
Bond fund	100
Series 2010A Bond	
Project fund	1,616,268
Bond fund	298,563
Series 2010B Bond	
Project fund	2,161,384
Bond fund	299,462
Series 2010C Bond	
Project fund	2,502,713
Bond fund	291,682
Total	$ 7,553,878

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Firm maintains all of its unrestricted cash with one financial institution, which is insured by the Federal Deposit Insurance Corporation (FDIC). At times, such cash may be in excess of FDIC insurance limits. The Firm has not experienced any losses in such accounts and believes it is not exposed to any significant risks related to cash.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2011 consists of the following:

Land and improvements	$ 7,418,555
Buildings and leasehold improvements	12,082,588
Vehicles, furniture and equipment	1,800,402
Textbooks	301,703
Software	97,121
Construction in progress	13,894,094
Total	35,594,463
Less accumulated depreciation	2,220,820
Property and equipment, net	$33,373,643

Depreciation for the year ended June 30, 2011 totaled $640,517.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2011:

Education Revenue Bonds (BASIS Tucson, Series 2006) were issued by the Industrial Development Authority of Pima County, Arizona, in the aggregate principal amount of $5,155,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated May 1, 2006. The loan matures over 30 years with an interest rate of 7.00%. Monthly principal and interest payments vary, and principal payments range from a minimum of $5,000 to a maximum of $43,333. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; (iii) for the payment of loan issuance costs; and (iv) extinguishment of the outstanding Series 2004 Education Revenue Bonds. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	$ 4,900,000

NOTE 5 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS Scottsdale, Series 2007) were issued by the Industrial Development Authority of Pima County, Arizona, in the aggregate principal amount of $9,000,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated February 1, 2007. The loan matures over 30 years with an interest rate of 6.75%. Monthly principal and interest payments vary, and principal payments range from a minimum of $8,333 to a maximum of $106,250. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; and, (iii) for the payment of loan issuance costs. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	8,680,000
Education Revenue Bonds (BASIS Oro Valley, Series 2010) were issued by the Industrial Development Authority of the Town of Florence, Inc. in the aggregate principal amount of $5,450,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated March 1, 2010. The loan matures over 30 years with an interest rate of 7.75%. Monthly principal and interest payments vary, and principal payments range from a minimum of $4,583 to a maximum of $45,833, commencing on July 1, 2012. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; and, (iii) for the payment of loan issuance costs. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	5,450,000

NOTE 5 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS Chandler, Series 2010A) were issued by the Industrial Development Authority of the Town of Florence, Inc. in the aggregate principal amount of $6,645,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated November 1, 2010. The loan matures over 30 years with an interest rate of 4.00% through June 30, 2012, and an interest rate of 7.00% thereafter. Monthly principal and interest payments vary, and principal payments range from a minimum of $6,667 to a maximum of $42,500, commencing on July 1, 2014. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; and, (iii) for the payment of loan issuance costs. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	6,645,000
Education Revenue Bonds (BASIS Peoria, Series 2010B) were issued by the Industrial Development Authority of the Town of Florence, Inc. in the aggregate principal amount of $6,665,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated November 1, 2010. The loan matures over 30 years with an interest rate of 4.00% through June 30, 2012, and an interest rate of 7.00% thereafter. Monthly principal and interest payments vary, and principal payments range from a minimum of $6,667 to a maximum of $42,917, commencing on July 1, 2014. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; and, (iii) for the payment of loan issuance costs. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	6,665,000

NOTE 5 - LONG-TERM DEBT - Continued

Education Revenue Bonds (BASIS Flagstaff, Series 2010C) were issued by the Industrial Development Authority of the Town of Florence, Inc. in the aggregate principal amount of $6,995,000. The proceeds of the bonds were loaned to the Firm pursuant to a loan agreement, dated December 1, 2010. The loan matures over 30 years with an interest rate of 4.00% through June 30, 2012, and an interest rate of 7.00% thereafter. Monthly principal and interest payments vary, and principal payments range from a minimum of $7,083 to a maximum of $45,000, commencing on July 1, 2014. The loan proceeds are to be used by the Firm for the following purposes: (i) to purchase land, buildings and to fund improvements; (ii) to fund a debt service reserve fund; and, (iii) for the payment of loan issuance costs. The loan is secured by a deed of trust on real property and through assignment of State Equalization revenues of the Firm.	6,995,000
Total	39,335,000
Less current maturities	250,000
	$ 39,085,000

The aggregate future minimum payments on long-term debt as of June 30, 2011, are as follows:

Year ending June 30:	
2012	$ 250,000
2013	270,000
2014	535,000
2015	570,000
2016	615,000
Thereafter	37,095,000
	$39,335,000

NOTE 6 - OPERATING LEASES

The Firm has various operating leases for copier equipment, expiring through fiscal year 2012-2013. Rental expense for those leases was $45,974 for the year ended June 30, 2011. Future minimum operating lease commitments are as follows:

Year ending June 30:	
2012	$ 29,040
2013	16,164
	$ 45,204

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2011:

Capital campaign projects	$ 395,494
Tax credit contributions restricted for extracurricular activities	81,710
	$ 477,204

NOTE 8 - ECONOMIC DEPENDENCY

Approximately 85% of the Firm's revenue for the year ended June 30, 2011 was derived from the State of Arizona through payments of State Equalization, Classroom Site Funds (Proposition 301), State of Arizona grants, and federal grants passed through the State of Arizona. Non-federal funds that are paid from the State of Arizona are subject to funding approval from the state legislature. Changes in state funding levels for charter schools could have a significant impact on the Firm's revenues.

NOTE 9 - RELATED PARTY

Michael Block, an authorized agent for the Firm and a shareholder of BEG, maintained an active Board member position throughout the fiscal year. As a Board member, Mr. Block could influence the financial and operational activities of the Firm through voting authority. However, his voting power did not constitute a majority of the Firm's Board of Directors and Mr. Block recused himself from all votes involving BEG.

Under terms of the management agreement, the Firm paid BEG $7,199,630 for leased employee costs and $2,623,975 in management services fees. As of June 30, 2011, 92,996 was due to BEG.

NOTE 10 - COMMITMENTS AND CONTINGENT LIABILITIES

Compliance: The Firm's compliance with certain laws and regulations is subject to review by the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in adjustments or withholding of State Equalization assistance.

Commitments:
On June 25, 2009, the Firm entered into a 10-year agreement with BASIS Educational Group, Inc. (BEG, a related party) to provide charter school management, teaching services and administrative services for BASIS School - Tucson and BASIS School - Scottsdale. On March 16, 2010, the firm entered into a 2-year agreement with BEG for BASIS School - Oro Valley to provide charter school management, teaching services and administrative services beginning in fiscal year 2010-11. On June 23, 2011, the Firm entered into a 2-year agreement with BEG for BASIS School - Chandler, BASIS School - Peoria, and BASIS School - Flagstaff to provide charter school management, teaching services and administrative services beginning in fiscal year 2011-12. The Firm paid BEG $2,623,975 during the fiscal year ended June 30, 2011. The subsequent years' fees for BASIS School - Tucson and BASIS School - Scottsdale will be adjusted for cost-of-living and other nongovernmental revenue growth and all other schools' fees will be adjusted based upon their growth in revenues. In addition, under the agreement the Firm leased all teachers and non-management on-site personnel from BEG.

During the fiscal year ending June 30, 2011, the Firm began construction of the Chandler, Flagstaff, and Peoria campuses. As of June 30, 2011, the Firm had $13,894,094 in construction in progress related to the new campus, with remaining commitments of approximately $1,376,556 to complete the projects.

NOTE 11 - SUBSEQUENT EVENTS

The Firm has evaluated subsequent events through December 30, 2011, the date which the financial statements were available to be issued, and has concluded that no events have occurred since the year ended June 30, 2011 that would require an adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

BASIS SCHOOL, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011

ASSETS	BSI General +NSO	BASIS School - Tucson	BASIS School - Scottsdale	BASIS School - Oro Valley	Totals
Current Assets					
Cash and cash equivalents	$ 54,953	$ 525,120	$ 407,788		$ 987,861
Accounts receivable	11,356	12,401	11,742	$ 11,285	46,784
Prepaid expenses	614	625	1,200	2,638	5,077
Due from governmental entities	153,367	332,047	319,451	351,157	1,156,022
Restricted cash - prepaid interest	889,707	2	3	100	889,812
Restricted cash - operating reserve and insurance		147,168	236,444	89	383,701
Restricted cash - accrued construction costs	4,115,188				4,115,188
Other current assets		227			227
Total Current Assets	5,225,185	1,017,590	976,628	365,269	7,584,672
Noncurrent Assets					
Loan issuance cost, net of accumulated amortization of $131,744	681,593	256,268	327,164	301,690	1,566,715
Restricted cash	2,165,177				2,165,177
Property and equipment - net	17,046,401	4,197,150	7,112,972	5,017,120	33,373,643
Other noncurrent assets	2,466		1,200		3,666
Total Noncurrent Assets	19,895,637	4,453,418	7,441,336	5,318,810	37,109,201
Total Assets	$ 25,120,822	$ 5,471,008	$ 8,417,964	$ 5,684,079	$ 44,693,873
LIABILITIES AND NET ASSETS (DEFICIT)					
Current Liabilities					
Accounts payable and accrued expenses	$ 156,861	$ 44,683	$ 48,588	$ 31,716	$ 281,848
Accrued construction costs	4,115,188				4,115,188
Deferred revenues	39,450	23,028	23,842	5,250	91,570
Deposits held for others	394,375	173,020	195,195	133,200	895,790
Due to government	70		11		81
Current maturities of long term debt		75,000	120,000	55,000	250,000
Other current liabilities *	(231,691)	216,514	366,691	(351,514)	
Total Current Liabilities	4,474,253	532,245	754,327	(126,348)	5,634,477
Noncurrent Liabilities					
Long-term debt, net of current maturities	20,305,000	4,825,000	8,560,000	5,395,000	39,085,000
Total Noncurrent Liabilities	20,305,000	4,825,000	8,560,000	5,395,000	39,085,000
Total Liabilities	24,779,253	5,357,245	9,314,327	5,268,652	44,719,477
Net Assets					
Unrestricted (deficit)	277,269	27,256	(1,103,040)	295,707	(502,808)
Temporarily restricted	64,300	86,507	206,677	119,720	477,204
Total Net Assets (Deficit)	341,569	113,763	(896,363)	415,427	(25,604)
Total Liabilities and Net Assets (Deficit)	$ 25,120,822	$ 5,471,008	$ 8,417,964	$ 5,684,079	$ 44,693,873

* Amounts include inter-school payables for the Combining Statement of Financial Position.

BASIS SCHOOL, INC.
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	BSI General+NSO			BASIS School - Tucson			BASIS School - Scottsdale		
	Unrestricted	Temporarily Restricted	Subtotal	Unrestricted	Temporarily Restricted	Subtotal	Unrestricted	Temporarily Restricted	Subtotal
Revenue and Support									
State Equalization				$ 4,034,339		$ 4,034,339	$ 3,712,340		$ 3,712,340
Federal grants	$ 302,334		$ 302,334	277,649		277,649	239,473		239,473
State grants				198,954		198,954	188,482		188,482
Extra-curricular activities fees tax credit contributions		$ 64,300	64,300		$ 77,480	77,480		$ 73,715	73,715
Other contributions	202,000		202,000		94,646	94,646		246,792	246,792
Contributions to new schools	274,052		274,052						
Program and other revenue	17,557		17,557	168,941		168,941	284,876		284,876
Net assets released from restriction				171,763	(171,763)		332,762	(332,762)	
Total Revenue and Support	795,943	64,300	860,243	4,851,646	363	4,852,009	4,757,933	(12,255)	4,745,678
Program Services Expenses									
Salaries and related, leased employees	254,848		254,848	2,357,668		2,357,668	2,496,040		2,496,040
Program management fees				442,155		442,155	402,801		402,801
Legal fees				8,065		8,065	5,100		5,100
Other services fees	40,679		40,679	219,138		219,138	199,956		199,956
Advertising and promotion				10,839		10,839	11,119		11,119
Office expenses	6,806		6,806	149,865		149,865	157,159		157,159
Occupancy				130,436		130,436	167,754		167,754
Travel				8,484		8,484	2,296		2,296
Depreciation				218,527		218,527	230,054		230,054
Insurance				29,201		29,201	23,050		23,050
Contributions to new schools				96,921		96,921	94,756		94,756
Other expenses				28,625		28,625	44,353		44,353
Total Program Services Expenses	302,333		302,333	3,699,924		3,699,924	3,834,438		3,834,438
Management and General Expenses									
Salaries and related, leased employees	238,516		238,516						
General management fees				479,001		479,001	436,367		436,367
Legal fees	10,286		10,286						
Accounting fees				10,212		10,212	10,212		10,212
Other services fees	22,318		22,318						
Advertising and promotion	11,525		11,525						
Occupancy	22,789		22,789						
Travel	35,286		35,286						
Depreciation	3,434		3,434						
Interest	25,328		25,328	357,138		357,138	606,663		606,663
Amortization	13,824		13,824	10,321		10,321	12,745		12,745
Insurance	6,350		6,350						
Other expenses	41,140		41,140						
Total Management and General Expenses	430,796		430,796	856,672		856,672	1,065,987		1,065,987
Fundraising Expenses									
Salaries and related, leased employees				10,270		10,270	28,757		28,757
Other expenses				3,448		3,448	22,066		22,066
Total Fundraising Expenses				13,718		13,718	50,823		50,823
Total Expenses	733,129		733,129	4,570,314		4,570,314	4,951,248		4,951,248
Change in Net Assets (Deficit)	62,814	64,300	127,114	281,332	363	281,695	(193,315)	(12,255)	(205,570)
Net Assets (Deficit), July 1, 2010	214,455		214,455	(254,076)	86,144	(167,932)	(909,725)	218,932	(690,793)
Net Assets (Deficit), June 30, 2011	$ 277,269	$ 64,300	$ 341,569	$ 27,256	$ 86,507	$ 113,763	$ (1,103,040)	$ 206,677	$ (896,363)

BASIS SCHOOL, INC.
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(CONTINUED)

	BASIS School - Oro Valley			Totals		
	Unrestricted	Temporarily Restricted	Subtotal	Unrestricted	Temporarily Restricted	Grand Total
Revenue and Support						
State Equalization	$ 3,179,333		$ 3,179,333	$ 10,926,012		$ 10,926,012
Federal grants	418,602		418,602	1,238,058		1,238,058
State grants	158,687		158,687	546,123		546,123
Extra-curricular activities fees tax credit contributions		$ 71,476	71,476		$ 286,971	286,971
Other contributions		131,832	131,832	202,000	473,270	675,270
Contributions to new schools				274,052		274,052
Program and other revenue	174,896		174,896	646,270		646,270
Net assets released from restriction	83,588	(83,588)		588,113	(588,113)	
Total Revenue and Support	4,015,106	119,720	4,134,826	14,420,628	172,128	14,592,756
Program Services Expenses						
Salaries and related, leased employees	1,801,208		1,801,208	6,909,764		6,909,764
Program management fees	385,609		385,609	1,230,565		1,230,565
Legal fees	4,301		4,301	17,466		17,466
Other services fees	109,370		109,370	569,143		569,143
Advertising and promotion	7,153		7,153	29,111		29,111
Office expenses	147,933		147,933	461,763		461,763
Occupancy	113,868		113,868	412,058		412,058
Travel	3,494		3,494	14,274		14,274
Depreciation	188,502		188,502	637,083		637,083
Insurance	16,811		16,811	69,062		69,062
Contributions to new schools	82,375		82,375	274,052		274,052
Other expenses	40,893		40,893	113,871		113,871
Total Program Services Expenses	2,901,517		2,901,517	10,738,212		10,738,212
Management and General Expenses						
Salaries and related, leased employees				238,516		238,516
General management fees	417,742		417,742	1,333,110		1,333,110
Legal fees				10,286		10,286
Accounting fees	1,166		1,166	21,590		21,590
Other services fees				22,318		22,318
Advertising and promotion				11,525		11,525
Occupancy				22,789		22,789
Travel				35,286		35,286
Depreciation				3,434		3,434
Interest	359,643		359,643	1,348,772		1,348,772
Amortization	10,509		10,509	47,399		47,399
Insurance				6,350		6,350
Other expenses				41,140		41,140
Total Management and General Expenses	789,060		789,060	3,142,515		3,142,515
Fundraising Expenses						
Salaries and related, leased employees	12,323		12,323	51,350		51,350
Other expenses	2,937		2,937	28,451		28,451
Total Fundraising Expenses	15,260		15,260	79,801		79,801
Total Expenses	3,705,837		3,705,837	13,960,528		13,960,528
Change in Net Assets (Deficit)	309,269	119,720	428,989	460,100	172,128	632,228
Net Assets (Deficit), July 1, 2010	(13,562)		(13,562)	(962,908)	305,076	(657,832)
Net Assets (Deficit), June 30, 2011	$ 295,707	$ 119,720	$ 415,427	$ (502,808)	$ 477,204	$ (25,604)

BASIS SCHOOL, INC.
COMBINING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

	BSI General +NSO	BASIS School - Tucson	BASIS School - Scottsdale	BASIS School - Oro Valley	Totals
Cash Flows From Operating Activities:					
Change in net assets (deficit)	$ 127,114	$ 281,695	$ (205,570)	$ 428,989	$ 632,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Depreciation	3,434	218,527	230,054	188,502	640,517
Amortization of loan issuance costs	13,824	10,321	12,745	10,509	47,399
Changes in:					
Accounts receivable	(9,955)	(586)	666	(11,285)	(21,160)
Prepaid expenses	(86)	3,181	3,532	61,976	68,603
Due from governmental entities	(153,367)	(291,735)	(283,581)	(351,157)	(1,079,840)
Other accrued revenues		435	18,200	373	19,008
Other assets	(2,466)	22,398	620	5,000	25,552
Accounts payable and accrued expenses	149,797	2,743	21,588	31,716	205,844
Deferred revenues	39,450	14,478	5,942	5,250	65,120
Deposits held for others	394,375	(2,785)	47,060	34,775	473,425
Other current liabilities	(147,808)	208,993	288,739	(350,196)	(272)
Net cash and cash equivalents provided by operating activities	414,312	467,665	139,995	54,452	1,076,424
Cash Flows From Investing Activities:					
Net deposits to/from restricted cash	(6,280,365)	(6,883)		1,910,767	(4,376,481)
Purchase of property and equipment	(13,260,138)	(150,700)	(104,010)	(1,965,219)	(15,480,067)
Net cash and cash equivalents provided by (used by) investing activities	(19,540,503)	(157,583)	(104,010)	(54,452)	(19,856,548)
Cash Flows From Financing Activities:					
Proceeds from loans	19,045,367				19,045,367
Principal payments on long-term debt		(73,102)	(115,000)		(188,102)
Net cash and cash equivalents provided by (used by) financing activities	19,045,367	(73,102)	(115,000)		18,857,265
Net increase (decrease) in cash and cash equivalents	(80,824)	236,980	(79,015)		77,141
Cash and cash equivalents, July 1, 2010	135,777	288,140	486,803		910,720
Cash and cash equivalents, June 30, 2011	$ 54,953	$ 525,120	$ 407,788	$	$ 987,861
Supplemental data:					
Interest paid on loans and bonds	$ 25,328	$ 357,138	$ 606,663	$ 359,643	$ 1,348,772
Capitalized interest	$ 457,502	$	$	$ 68,490	$ 525,992

BASIS School, Inc.

MASTER TEACHER PROGRAM SUMMARY

July 2010 through June 2011

	Scottsdale	Tucson	Oro Valley	Total
Beginning Balance, July 1, 2010	$ 218,932	$ 86,144		$ 305,076
MT Camp 10/11 Receipts				
Pledges	13,500	3,890	$ 18,420	35,810
Other Contributions	233,292	90,756	113,412	437,460
Total Gross Proceeds	246,792	94,646	131,832	473,270
Expenses - MT Camp 10/11				
Fundrising Events Direct Costs	10,667			10,667
Other Fundraising Expenses	40,155	13,718	15,262	69,135
Total Fundraisising Expenses	50,822	13,718	15,262	79,802
Net Fundraising 10/11	195,970	80,928	116,570	393,468
Expended on Teacher Salaries in 10/11 - MT Supplements	216,425	86,625		303,050
Ending Balance, June, 2011 - Available for Teacher Salaries in 11/12	$ 198,477	$ 80,447	$ 116,570	$ 395,494

BASIS School, Inc.

DEBT SERVICE COVERAGE RATIO

Year Ended June 30, 2011

Covenants

Article VIII, Special Covenants, Section 8.04 Audits

Debt Service Coverage Ratio. The Borrower will deliver to the Issuer, the Trustee, the Bondholder Representative and each Significant Bondholder within 30 days of the completion of the Borrower's annual audited financial statements, a Certificate executed by the Borrower stating the Debt Service Coverage Ratio.

		Series 2006		Series 2007
Net income available for debt service:				
Pledged revenue		$ 9,597,687		
Interest earnings see above		-		
Total operating expenses:	$ 9,521,562			
Net income (loss)	76,125			
Add: depreciation	448,581			
Add: amortization	23,066			
Add: non-cash expenses	-			
Add: interest expense	963,801			
Add: revenues earned by Firm, not from pledged revenues		1,511,573		
Add back:				
Extraordinary items	-			
Gain/loss on extguishement of debt	-			
Proceeds of new debt	-			
Proceeds of insurance policies	-			
		-		
Net income available for debt service:		1,511,573		
Maximum annual debt service requirement:	Year		Year	
Highest principal and interest	2017-18	$ 420,550	2026-27	$ 1,129,425
DEBT SERVICE COVERAGE RATIO:		3.6		1.3

NOTE 1: Pursuant to the Series 2006 and 2007 loan agreements' definition of "Pledged Revenue" and "Operating Expenses" only the revenues and expenses of the BASIS - Scottsdale and BASIS - Tucson campuses are used to determine compliance with the debt service coverage ratio requirement.

BASIS School, Inc.

DEBT SERVICE COVERAGE RATIO

Year Ended June 30, 2011

Covenants

Article VIII, Special Covenants, Section 8.05 Finacial Records and Statements; Reports

Debt Service Coverage Ratio: Within 45 calendar days of the completion of the Borrower's annual audited financial statements, the Borrower will deliver to the Trustee and the Bondholder representative evidence of the Debt Service Coverage Ratio, which evidence may be in the form of a certificate of an Accountant of the Borrower or included in the notes to the Borrower's annual audited financial statements.

			Series 2010
Net income available for debt service:			
Pledged revenue		$	4,134,826
Interest earnings see above			-
Total operating expenses:	$ 3,705,837		
Net income (loss)	428,989		
Add: depreciation	188,502		
Add: amortization	10,509		
Add: non-cash expenses	-		
Add: interest expense	359,643		
Add: revenues earned by Firm, not from pledged revenues			987,643
Add back:			
Extraordinary items	-		
Gain/loss on extguishement of debt	-		
Proceeds of new debt	-		
Proceeds of insurance policies	-		
			-
Net income available for debt service:			987,643
Maximum annual debt service requirement:	**Year**		
Highest principal and interest	2013-14	$	478,463
DEBT SERVICE COVERAGE RATIO:			2.1

NOTE 1: Pursuant to the Series 2010 loan agreement definition of "Pledged Revenue" and "Operating Expenses" only the revenues and expenses of BASIS - Oro Valley is used to determine compliance with the debt service coverage ratio requirement.

Fester & Chapman P.C.
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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*

To the Board of Directors
BASIS School, Inc.
Scottsdale, Arizona

We have audited the financial statements of BASIS School, Inc. (the Firm), a nonprofit organization as of and for the year ended June 30, 2011, and have issued our report thereon dated December 30, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Firm's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Firm's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Firm's internal control over financial reporting.

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 *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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Firm's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Firm's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, the Arizona State Board for Charter Schools, and the Auditor General of the State of Arizona, and is not intended and should not be used by anyone other than these specified parties.

Foster & Chapman P.C.

December 30, 2011