

One Bright Ray, Inc.
Financial Statements
And
Independent Auditor's Report
Year Ended June 30, 2015

One Bright Ray, Inc. Table of Contents

Independent Auditor's Report	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-12

Independent Auditor's Report

Board of Directors
One Bright Ray, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of One Bright Ray, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of One Bright Ray, Inc. as of June 30, 2015 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Elkins Park, Pennsylvania
November 16, 2015

One Bright Ray, Inc.
Statement of Financial Position
June 30, 2015

Assets	
Current Assets	
Cash and cash equivalents	\$ 995,148
Assets whose use is limited, current portion	562
Accounts receivable	703,229
Prepaid expenses	19,561
<hr/>	
Total current assets	1,718,500
Property and equipment, net	10,844,371
Deferred financing costs, net	306,083
Deferred rental income	127,503
<hr/>	
	\$12,996,457
<hr/>	
Liabilities	
Current Liabilities	
Bond payable, current portion	\$ 553,908
Accrued expenses	80,363
<hr/>	
Total current liabilities	634,271
Bonds payable	13,857,519
<hr/>	
	14,491,790
Net Deficit	
Unrestricted	(1,495,333)
<hr/>	
	\$12,996,457
<hr/>	

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Activities
Year Ended June 30, 2015

Unrestricted Net Assets	
Revenues	
Program revenues	
Program fees	\$ 3,766,870
Rental income	1,046,259
General revenues	
Student activity fees	63,403
Other income	71,532
Total revenues	4,948,064
Expenses	
Program services:	
Payroll	2,123,630
Payroll taxes	210,223
Employee benefits	374,221
Rent and occupancy	202,180
Professional fees	142,257
Program costs and supplies	256,464
Insurance	72,874
Depreciation	572,865
Amortization	18,782
Interest	458,600
Support services:	
General and administrative	180,742
Total expenses	4,612,838
Increase in unrestricted net assets	335,226
Unrestricted net deficit, beginning of year	(1,830,559)
Unrestricted net deficit, end of year	\$(1,495,333)

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Cash Flows
Year Ended June 30, 2015

Cash Flows From Operating Activities	
Increase in net assets	\$ 335,226
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Amortization	18,782
Deferred rental income	(127,503)
Depreciation	572,865
Increase (decrease) in current assets and liabilities	
Accounts receivable	(47,685)
Prepaid expenses	7,336
Accrued expenses	(31,323)
<hr/>	
Net cash provided by operating activities	727,698
<hr/>	
Cash Flows Financing Activities	
Principal payments on non-revolving line of credit	(28,165)
Principal payments on bonds payable	(530,000)
<hr/>	
Net cash used in financing activities	(558,165)
<hr/>	
Net increase in cash and cash equivalents	169,533
Cash and cash equivalents, beginning of year	825,615
<hr/>	
Cash and cash equivalents, end of year	\$ 995,148
<hr/>	
Supplemental Disclosure of Cash Flow Information	
Interest paid	\$ 458,849

See accompanying notes to financial statements.

One Bright Ray, Inc.

Notes to Financial Statements

Note 1 Nature of Activities

One Bright Ray, Inc., (the Organization) leases a facility to a charter school and provides educational support services to three contract schools in the Philadelphia area. The Organization leases its building to Community Academy of Philadelphia (CAP). The Organization contracts with the School District of Philadelphia to operate One Bright Ray Community High School Simpson Campus, One Bright Ray Community High School Fairhill Campus and its new One Bright Ray Community High School Elmwood Campus (effective July 1, 2015), which provide high-risk and at-risk youth, between the ages of 16-21, from the inner city of Philadelphia with a second chance of obtaining a high school diploma.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The accounts of the Organization are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

Under ASC 958, the Organization 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. All the organizations net assets are unrestricted at June 30, 2015.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Service Code. The Organization adopted the provisions of ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization files a Return of Organizations Exempt from Income Tax annually. The Organization's returns for 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

One Bright Ray, Inc.

Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash equivalents whose use is limited are not considered cash and cash equivalents, for purposes of the statement of cash flows. At June 30, 2015, cash and cash equivalents included \$995,148 of which \$500,000 was insured by the Federal Deposit Insurance Corporation.

Cash and cash equivalents include \$66,307, which was refunded to the Organization in connection with the original issuance of Series 2002B Bonds (Note 6). The Organization is required to pay down the Series 2002B Bonds. The repayment is expected to be made before June 30, 2016 and accordingly is included in current assets.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Organization's uninsured deposits may not be returned. The Organization does not have a policy for custodial credit risk.

Revenue Recognition

Revenue has been recognized based on rental income earned per the lease agreements, contracts for services provided and grant contracts which are received primarily from the School District of Philadelphia. The Organization provides an allowance for bad debts if collectability appears uncertain. At June 30, 2015 an allowance was not warranted.

Assets Whose Use is Limited - Investments

Investments are carried at fair value, based on quoted market prices. Investments at June 30, 2015 are composed primarily of government agency money market funds.

Property and Equipment

Property and equipment are stated at cost. Expenditures for property and those which substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation and amortization are removed from the accounts and resulting gains or losses are included in the change in unrestricted net assets. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets.

The useful lives are as follows:

Buildings	30 years
Improvements	30 years
Vehicles	5 years
Furniture & equipment	5 -7 years

One Bright Ray, Inc.

Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies (Continued)

Deferred Rental Income

Rental income is being recognized on a straight-line basis over the life of the lease. The difference between rental income recognized and rents received, as stipulated in the lease, is reflected as deferred rental income on the statement of financial position.

Deferred Financing Costs

In June 2002, the Organization issued Series 2002B Bonds and incurred costs of \$406,467. In October 2009 the Organization entered into a note payable and incurred costs of \$99,379.

The costs are deferred and amortized on a straight-line basis, over the life of the debt, of 24 and 30 years. Amortization expense was \$17,690 for the year ended June 30, 2015. The deferred financing costs are as follows:

Deferred financing costs	\$	505,846
Less: accumulated amortization		199,763
	\$	306,083

Note 3 Assets Whose Use Is Limited

In accordance with the terms of issued bonds, the Organization has established funds that are segregated for specific use and for security of the bondholders and are maintained by an independent trustee. These funds are presented as “assets whose use is limited” in the accompanying statements of financial position.

The following are the components of the Organization’s assets whose use is limited at June 30, 2015:

Cash and cash equivalents	\$	562
		562
Less: current portion		562
	\$	-

Note 4 Property and Equipment

Property and equipment include the following at June 30, 2015:

Buildings and improvements	\$	16,531,216
Leasehold improvements		430,316
Vehicles		43,288
Furniture and equipment		601,737
Website and software		48,181
		17,654,738
Less: accumulated depreciation and amortization		6,810,367
	\$	10,844,371

Depreciation expense was \$572,864 for the year.

One Bright Ray, Inc.
Notes to Financial Statements

Note 5 Non-Revolving Line of Credit

The School had a \$350,000 non-revolving line of credit (the Line) from Citizens Bank used for the renovations and construction of certain improvements at 1142-1152 East Erie Ave., Philadelphia, PA. The Line, which had an outstanding balance of \$28,165 at June 30, 2014, was paid in full during the year.

Note 6 Bonds Payable

The Organization's Series 2002B Bonds were issued on June 28, 2002 for \$3,250,000 of which \$2,690,000 is payable at June 30, 2015.

The annual principal amounts and sinking fund requirements on the Series 2002B Bonds will be paid June 15, and interest on the Series 2002B Bonds will be payable on June 15 and December 15 at 8.5%.

During the year, the Organization was refunded \$66,307 from the original issuance of \$3,250,000 and is required to use those funds to pay down the Series 2002B Bonds. The \$66,307 is included in Other Income on the Statement of Activities.

The Organization has pledged to provide annual revenues principally, but not limited to, the collections from Community Academy of Philadelphia (CAP), a related party as disclosed in Note 8 to the financial statements, pursuant to the leases. The debt covenants provide that CAP must maintain a debt service coverage ratio of 1.25, enrollment of at least 50% of budgeted enrollment and at least 15 days cash on hand. However, failure to maintain these covenants are not deemed defaults but require a management consultant's report setting forth the reasons for the deficiency and set forth a plan to correct the deficiency. The Organization has also pledged all rights, title and interest.

At June 30, 2015 bonds payable consists of the following:

Bonds payable	\$ 2,690,000
Less: unamortized original issue discount	18,572
	<u>\$ 2,671,428</u>

Original issue discount is shown as a reduction of the carrying amount of bonds payable; this contra asset, which amounted to \$32,775, is being amortized on a straight-line basis as a component of interest expense over the remaining life of the bonds, 30 years. Amortization expense was \$1,092 for the year ending June 30, 2015.

One Bright Ray, Inc.
Notes to Financial Statements

Note 6 Bonds Payable (Continued)

The following is a schedule of required bond principal and interest payments:

Date	Series 2002B -Subordinated Bonds				Total Debt Service
	Principal	original issue discount amortization	Net Principal	Interest	
2016	\$ 75,000	\$ (1,092)	\$ 73,908	\$ 228,650	\$ 302,558
2017	85,000	(1,092)	83,908	222,276	306,184
2018	90,000	(1,092)	88,908	215,050	303,958
2019	100,000	(1,092)	98,908	207,400	306,308
2020	105,000	(1,092)	103,908	198,900	302,808
2021-2032	2,235,000	(13,113)	2,221,887	2,021,728	4,243,615
	2,690,000	(18,573)	2,671,427	3,094,004	5,765,431
Due within one year	75,000	(1,092)	73,908	228,650	302,558
	\$ 2,615,000	\$ (17,481)	\$ 2,597,519	\$ 2,865,354	\$ 5,462,873

Note 7 Long-Term Debt

As of June 30, 2015, \$11,740,000 is payable to Citizens Bank with interest payable at LIBOR plus 2.75%. The note matures on June 30, 2032.

The Organization has pledged to provide annual revenues, including the collections from CAP, a related party, as disclosed in Note 12 to the financial statements, pursuant to the lease. The Organization and CAP are required to maintain a combined Debt Service Coverage Ratio of 1.20 to 1.0, enrollment of at least 50% of its licensed capacity, and at least 30 days cash on hand.

Maturities of long-term debt are as follows:

June 30,	
2016	\$ 480,000
2017	500,000
2018	520,000
2019	545,000
2020	570,000
Thereafter	9,125,000
	11,740,000
Due within one year	480,000
Due after one year	\$ 11,260,000

One Bright Ray, Inc.

Notes to Financial Statements

Note 8 Operating Lease and Subsequent Lease Commitment

Related Party Leases

The following lease and sublease agreements have been executed as a requirement under the terms of the Citizens Bank agreement with the Organization.

Effective July 1, 2015 the Organization's operating lease and sublease agreements were amended.

The leases are with Community Academy of Philadelphia (CAP), a related party, and include facilities located at 1100-1140 East Erie Avenue, 1142-1152 East Erie Avenue and 2816-2822 North Fourth Street which are all located in Philadelphia. Gross rental income for these facilities is \$1,109,460 for the year ending June 30, 2015.

The sublease agreements are with CAP for the facilities located at 1142-1152 East Erie Avenue and 2816-2822 North Fourth Street which are both located in Philadelphia. The sublease rental expense totaled \$190,704 for the year ending June 30, 2015.

The lease and sublease agreements extend through June 30, 2032. In addition to the basic rentals, the Organization charges CAP for additional costs including taxes, occupancy, maintenance costs and other costs incurred by the Organization under its Bond Purchase Agreement. These additional costs are allocated between the Organization and CAP based on the usage of the facilities identified in the lease and sublease agreements.

Rental income from CAP is being recognized on the straight-line basis, which is \$1,046,259 for the year ended June 30, 2015. Rental income received from CAP is \$918,756 for the year ended June 30, 2015. The cumulative difference between rent received and rent calculated on the straight-line basis is \$127,503 and is reflected on the statement of net position as Deferred Rental Income.

Other Operating Leases

Effective July 1, 2015, the Organization entered into an agreement with the School District of Philadelphia to lease a school facility at 6404 Elmwood Avenue in Philadelphia. The lease is for a period of one year through June 30, 2016 and is payable \$5,390 per month. The lease can be renewed annually with a 3% annual increase. The Organization is charged \$2 per square foot for utilities and is also responsible for all maintenance and occupancy costs.

The following is a schedule of future minimum lease payments required as of June 30, 2015:

Year ending June 30,	Facilities	Facilities sublease income	Total
2016	\$ 1,120,295	\$ (173,639)	\$ 946,656
2017	1,135,723	(176,031)	959,692
2018	1,144,275	(177,357)	966,918
2019	1,162,920	(180,246)	982,674
2020	1,174,580	(182,053)	992,527
Thereafter	15,461,960	(2,869,642)	12,592,318
	\$ 21,199,753	\$(3,758,968)	\$ 17,440,785

One Bright Ray, Inc.

Notes to Financial Statements

Note 9 Significant Concentration of Risk

The Organization intends to make payments on the Series 2002B Bonds and the long term note payable to Citizens Bank from lease payments received from CAP. CAP's ability to make payments under the lease is largely dependent on its revenues received from the school district, which is set by the Commonwealth. There is no assurance that the amounts set by the Commonwealth may not be decreased. Such a decrease could materially affect the ability of CAP to make rental payments. In addition, CAP's charter agreement with the school district is renewed every five years. There are no assurances that school district's commission or its successors will continue to renew the charter.

Note 10 Other Related Party Transactions

The Organization is related to Community Academy of Philadelphia (CAP) as certain board members of the Organization are employees of CAP. As described in Note 8, the Organization has a lease agreement with CAP. As of June 30, 2015 there were no balances between either party. There is no stated interest rate or repayment terms. The following is a summary of the related party activity for the year ended June 30, 2015:

Balance, beginning of year	\$	-
Rental income		918,756
Net reimbursements		(918,756)
<hr/>		
Balance, end of year	\$	-

Note 11 Defined Contribution Plan

The Organization sponsors a defined contribution plan (the Plan) covering all employees with at least one year of service who agree to make contributions to the Plan. The Organization matches participants' contributions to the Plan up to 3% of the individual participant's compensation. Total expense for the year ended June 30, 2015 was \$57,407.

Note 12 Funding

The Schools receive funding from the School District of Philadelphia on a monthly basis based on enrollment. The rate of funding per student is determined on an annual basis.

The Schools also received federal funding for certain federal breakfast and lunch programs.

Note 13 Other Matters

In August 2009, federal search warrants were served on the facilities of the Organization and CAP. During July, 2012, the US Department of Justice, Civil Division served Civil Investigative Demands on the Organization. Legal counsel has not received specific information as to the probable cause for the retrieval of records or the subject matter of the investigation, and is unable to determine the financial effect on the School.

One Bright Ray, Inc.
Notes to Financial Statements

Note 14 Subsequent Events

The Organization has evaluated subsequent events through November 16, 2015 the date which the financial statements were available to be issued.

The Organization, effective July 1, 2015, leased a new school faculty in Philadelphia (Note 8). In connection with this lease the Organization incurred various startup costs approximating \$65,000.