

One Bright Ray, Inc.
Financial Statements
And
Independent Auditor's Report
Year Ended June 30, 2017

One Bright Ray, Inc.

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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, 2017, 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, 2017 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
October 20, 2017

One Bright Ray, Inc.
Statement of Financial Position
June 30, 2017

Assets	
Current Assets	
Cash and cash equivalents	\$ 885,117
Accounts receivable	1,155,973
Prepaid expenses	17,170
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Total current assets	2,058,260
Property and equipment, net	10,462,297
Deferred financing costs, net	270,701
Deferred rental income	313,673
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	\$13,104,931
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Liabilities	
Current Liabilities	
Bond payable, current portion	\$ 88,908
Current portion of long-term debt	520,000
Accounts payable and accrued expenses	162,784
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Total current liabilities	771,692
Bonds payable	2,424,703
Long-term debt	10,240,000
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	13,436,395
Net Deficit	
Unrestricted	(331,464)
<hr/>	
	\$13,104,931
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See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Activities
Year Ended June 30, 2017

Unrestricted Net Assets	
Revenues	
Program revenues	
Program fees	\$ 6,394,927
Rental income	1,046,259
General revenues	
Student activity fees	97,299
Other income	500
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Total revenues	7,538,985
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Expenses	
Program services:	
Payroll	3,464,227
Payroll taxes	316,449
Employee benefits	662,083
Rent and occupancy	249,480
Professional fees	170,227
Program costs and supplies	375,076
Insurance	92,178
Depreciation	612,096
Amortization	18,782
Interest	472,910
Support services:	
General and administrative	275,234
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Total expenses	6,708,742
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Increase in unrestricted net assets	830,243
Unrestricted net deficit, beginning of year	(1,161,707)
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Unrestricted net deficit, end of year	\$ (331,464)

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Cash Flows
Year Ended June 30, 2017

Cash Flows From Operating Activities	
Increase in net assets	\$ 830,243
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Amortization	18,782
Deferred rental income	(86,567)
Depreciation	612,096
Increase (decrease) in current assets and liabilities	
Accounts receivable	(395,778)
Assets whose use is limited	562
Prepaid expenses	12,794
Accounts payable and accrued expenses	84,328
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Net cash provided by operating activities	1,076,460
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Cash Flows From Investing Activities	
Purchases of property and equipment	(680,880)
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Net cash used in investing activities	(680,880)
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Cash Flows From Financing Activities	
Principal payments on long-term debt	(500,000)
Principal payments on bonds payable	(85,000)
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Net cash used in financing activities	(585,000)
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Net decrease in cash and cash equivalents	(189,420)
Cash and cash equivalents, beginning of year	1,074,537
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Cash and cash equivalents, end of year	\$ 885,117
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Supplemental Disclosure of Cash Flow Information	
Interest paid	\$ 468,629

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 One Bright Ray Community High School Elmwood Campus, 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 Organization's net assets are unrestricted at June 30, 2017.

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 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 (IRS) 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 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

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, 2017, cash and cash equivalents included \$885,117 of which was all insured by the Federal Deposit Insurance Corporation.

One Bright Ray, Inc.
Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

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, 2017 an allowance was not warranted.

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

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.

Note 3 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, 2017. The deferred financing costs are as follows:

Deferred financing costs	\$ 505,846
Less: accumulated amortization	235,145
	<u>\$ 270,701</u>

One Bright Ray, Inc.
Notes to Financial Statements

Note 4 Property and Equipment

Property and equipment include the following at June 30, 2017:

Buildings and improvements	\$ 16,531,216
Leasehold improvements	882,551
Vehicles	86,882
Furniture and equipment	905,165
Website and software	48,181
	18,453,995
Less: accumulated depreciation and amortization	7,991,698
	\$ 10,462,297

Depreciation expense was \$612,096 for the year ended June 30, 2017.

Note 5 Bonds Payable

The Organization's Series 2002B Bonds were issued on June 28, 2002 for \$3,250,000 of which \$2,530,000 is payable at June 30, 2017.

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%.

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 to its assets.

At June 30, 2017 bonds payable consists of the following:

Bonds payable	\$ 2,530,000
Less: unamortized original issue discount	16,389
	\$ 2,513,611

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 life of the bonds. Amortization expense was \$1,092 for the year ended June 30, 2017.

One Bright Ray, Inc.
Notes to Financial Statements

Note 5 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	
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	115,000	(1,092)	113,908	189,975	303,883
2022	125,000	(1,092)	123,908	180,200	304,108
2023-2032	1,995,000	(10,929)	1,984,071	1,046,350	3,030,421
	2,530,000	(16,389)	2,513,611	2,037,875	4,551,486
Due within one year	90,000	(1,092)	88,908	215,050	303,958
	\$ 2,440,000	\$ (15,297)	\$ 2,424,703	\$ 1,822,825	\$ 4,247,528

Note 6 Long-Term Debt

As of June 30, 2016, \$10,760,000 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 8 and 10 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:

Years ending June 30,	
2018	\$ 520,000
2019	545,000
2020	570,000
2021	595,000
2022	615,000
Thereafter	7,915,000
	10,760,000
Due within one year	520,000
Due after one year	\$ 10,240,000

Note 7 Operating Lease Commitments

Related Party Leases

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

One Bright Ray, Inc.
Notes to Financial Statements

Note 7 Operating Lease Commitments (Continued)

Related Party Leases (Continued)

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 \$1,133,332 for the year ended June 30, 2017.

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 \$173,640 for the year ended June 30, 2017.

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, 2017. Rental income received from CAP is \$959,692 for the year ended June 30, 2017. The cumulative difference between rent received and rent calculated on the straight-line basis is \$86,567 and is reflected on the statement of net position as Deferred Rental Income.

Other Operating Leases

The Organization leases a school facility at 6404 Elmwood Avenue in Philadelphia from the School District of Philadelphia. The lease renews annually effective from July 1 to June 30 and is payable at \$5,390 per month 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. Rent expense was \$83,160 for the year ended June 30, 2017.

The following is a schedule of future minimum lease payments(receipts) required as of June 30, 2017:

Years ending June 30,	Facilities	Facilities sublease income	Total
2018	\$ 1,144,275	\$ (177,357)	\$ 966,918
2019	1,162,920	(180,246)	982,674
2020	1,174,580	(182,053)	992,527
2021	1,190,723	(184,556)	1,006,167
2022	1,199,880	(185,974)	1,013,906
Thereafter	13,071,357	(2,025,993)	11,045,364
	<u>\$ 18,943,735</u>	<u>\$ (2,936,179)</u>	<u>\$ 16,007,556</u>

One Bright Ray, Inc.

Notes to Financial Statements

Note 8 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 of Philadelphia, which is set by the Commonwealth of Pennsylvania. 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 9 Other Related Party Transactions

The Organization is related to 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, 2017 there were no balances between either party. The following is a summary of the related party activity for the year ended June 30, 2017:

Balance, beginning of year	\$	-
Rental income		959,692
Net reimbursements		(959,692)
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Balance, end of year	\$	-

Note 10 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, 2017 was \$93,384.

Note 11 Funding

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

Note 12 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, if any, on the Organization.

Note 13 Subsequent Events

The Organization has evaluated subsequent events through October 20, 2017, the date which the financial statements were available to be issued.