One Bright Ray, Inc.

Financial Statements
And
Independent Auditor's Report

Year Ended June 30, 2018

One Bright Ray, Inc.
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SD Associates P.C.
Certified Public Accountants & Business Advisors

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, 2018, 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, 2018 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.

SD Associates P.C.

Elkins Park, Pennsylvania
October 31, 2018

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One Bright Ray, Inc.
Statement of Financial Position
June 30, 2018

Assets	
Current Assets	
Cash and cash equivalents	$ 1,165,005
Accounts receivable	1,217,690
Prepaid expenses	47,433
Total current assets	2,430,128
Property and equipment, net	9,915,427
Deferred rental income	393,013
	$12,738,568
Liabilities	
Current Liabilities	
Bond payable, current portion	$ 85,359
Current portion of long-term debt	540,859
Accounts payable and accrued expenses	244,919
Total current liabilities	871,137
Bond payable	2,149,661
Long-term debt	9,635,813
	12,656,611
Net Assets	
Unrestricted	81,957
	$12,738,568

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Activities
Year Ended June 30, 2018

Unrestricted Net Assets	
Revenues	
Program revenues	
Program fees	$ 7,081,002
Rental income	1,046,252
General revenues	
Student activity fees	90,266
Total revenues	8,217,520
Expenses	
Program services:	
Payroll	4,160,657
Payroll taxes	375,304
Employee benefits	770,874
Rent and occupancy	271,271
Professional fees	193,722
Program costs and supplies	473,419
Insurance	104,908
Depreciation and amortization	667,442
Amortization-financing costs	18,782
Interest	511,564
Support services:	
General and administrative	256,156
Total expenses	7,804,099
Increase in unrestricted net assets	413,421
Unrestricted net deficit, beginning of year	(331,464)
Unrestricted net assets, end of year	$ 81,957

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Cash Flows
Year Ended June 30, 2018

Cash Flows From Operating Activities	
Increase in net assets	$ 413,421
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Amortization-financing costs	18,782
Deferred rental income	(79,340)
Depreciation and amortization	667,442
Increase (decrease) in current assets and liabilities	
Accounts receivable	(61,717)
Prepaid expenses	(30,263)
Accounts payable and accrued expenses	82,135
Net cash provided by operating activities	1,010,460
Cash Flows From Investing Activities	
Purchases of property and equipment	(120,572)
Net cash used in investing activities	(120,572)
Cash Flows From Financing Activities	
Principal payments on long-term debt	(520,000)
Principal payments on bond payable	(90,000)
Net cash used in financing activities	(610,000)
Net increase in cash and cash equivalents	279,888
Cash and cash equivalents, beginning of year	885,117
Cash and cash equivalents, end of year	$ 1,165,005
Supplemental Disclosure of Cash Flow Information	
Interest paid	$ 507,809

See accompanying 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, 2018.

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 2015, 2016 and 2017 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, 2018, cash and cash equivalents included $1,165,005 of which $500,000 was insured by the Federal Deposit Insurance Corporation.

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.

Note 2 Summary of Significant Accounting Policies (Continued)

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, 2018 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 Property and Equipment

Property and equipment include the following at June 30, 2018:

Buildings and improvements	$ 16,531,216
Leasehold improvements	908,327
Vehicles	86,882
Furniture and equipment	999,961
Website and software	48,181
	18,574,567
Less: accumulated depreciation and amortization	8,659,140
	$ 9,915,427

Depreciation expense was $667,442 for the year ended June 30, 2018.

Note 4 Bonds Payable

The Organization's Series 2002B Bonds were issued on June 28, 2002 for $3,250,000 of which $2,440,000 was payable at June 30, 2018.

The annual principal amounts and sinking fund requirements on the Series 2002B Bonds would have been paid June 15, and interest on the Series 2002B Bonds would have been payable on June 15 and December 15 at 8.5%. The Series 2002B Bonds were refinanced on October 1, 2018 (See Note 12).

Note 4 Bonds Payable (Continued)

The Organization had 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 provided that CAP must have maintained 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 would not be 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 had also pledged all rights, title and interest to its assets.

At June 30, 2018 bonds payable consists of the following:

Bonds payable	$ 2,440,000
Less: unamortized original issue discount and other related bond costs	(204,980)
	$ 2,644,980

Original issue discount which 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, 2018. The unamortized original issue discount balance will be written off in the subsequent year as a result of the refinancing (See Note 12).

In connection with the Series 2002B Bonds, the Organization incurred costs of $406,467 which is being amortized on a straight-line basis as a component of interest expense over the life of the bonds. Amortization expense was $13,549 for the year ended June 30, 2018.The unamortized bond cost balance will be written off in the subsequent year as a result of the refinancing (See Note 12).

The following is a schedule of required bond principal and interest payments which would have been payable/paid as of June 30:

	Series 2002B -Subordinated Bonds				
Date	Principal	original issue discount and other bond costs amortization	Net Principal	Interest	Total Debt Service
2019	$ 100,000	$ (14,641)	$ 85,359	$ 207,400	$ 292,759
2020	105,000	(14,641)	90,359	198,900	289,259
2021	115,000	(14,641)	100,359	189,975	290,334
2022	125,000	(14,641)	110,359	180,200	290,559
2023	135,000	(14,641)	120,359	169,575	289,934
2024-2032	1,860,000	(131,775)	1,728,225	876,775	2,605,000
	2,440,000	(204,980)	2,235,020	1,822,825	4,057,845
Due within one year	100,000	(14,641)	85,359	207,400	292,759
	$ 2,340,000	$ (190,339)	$ 2,149,661	$ 1,615,425	$ 3,765,086

Note 5 Long-Term Debt

As of June 30, 2018, $10,240,000 was payable to Citizens Bank with interest payable at LIBOR plus 2.75%. The note would have matured on June 30, 2032. The long-term debt was refinanced October 1, 2018 (See Note 12).

Note 5 Long-Term Debt (Continued)

The Organization had pledged to provide annual revenues, including the collections from CAP, a related party, as disclosed in Note 7 and 8 to the financial statements, pursuant to the lease. The Organization and CAP were 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.

In connection with the note payable, the Organization incurred costs of $99,379, which was being amortized on a straight-line basis as a component of interest expense over the life of the bonds. Amortization expense was $4,141 for the year ended June 30, 2018.The unamortized loan cost balance will be written off in the subsequent year as a result of the refinancing (See Note 12).

Maturities of long-term debt which would have been payable are as follows:

Years ending June 30, 2018	Principal	Bond Costs	Net Principal
2019	$ 545,000	$ (4,141)	$ 540,859
2020	570,000	(4,141)	565,859
2021	595,000	(4,141)	590,859
2022	615,000	(4,141)	610,859
2023	650,000	(4,141)	645,859
Thereafter	7,265,000	(42,623)	7,222,377
	10,240,000	(63,328)	10,176,672
Due within one year	545,000	(4,141)	540,859
Due after one year	$ 9,695,000	$ (59,187)	$ 9,635,813

Note 6 Operating Lease Commitments

Related Party Leases

The following lease and sublease agreements which were subsequently amended on October 1, 2018 (See Note 12) were executed as a requirement under the terms of the Citizens Bank loan agreement with the Organization:

The leases are with Community Academy of Philadelphia (CAP), a related party, and included 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 was $1,144,281 for the year ended June 30, 2018. In connection with bond and debt refinancing, the leases were also amended (See Note 12).

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 $177,362 for the year ended June 30, 2018. In connection with bond and debt refinancing, the leases were also amended (See Note 12).

The lease and sublease agreements would have extended 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.

Note 6 Operating Lease Commitments (Continued)

Other Operating Leases

Rental income from CAP was being recognized on the straight-line basis, which is $1,046,259 for the year ended June 30, 2018. Rental income received from CAP was $966,919 for the year ended June 30, 2018. The cumulative difference between rent received and rent calculated on the straight-line basis was $79,340 and is reflected on the statement of net position as Deferred Rental Income.

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, 2018.

The following is a schedule of future minimum lease payments(receipts) that would have been required as of June 30:

Years ending June 30,	Facilities	Facilities sublease income	Net lease cost
2019	$ 1,162,920	$ (180,246)	$ 982,674
2020	1,174,580	(182,053)	992,527
2021	1,190,723	(184,555)	1,006,168
2022	1,199,880	(185,974)	1,013,906
2023	1,224,163	(189,739)	1,034,424
Thereafter	11,847,194	(1,836,245)	10,010,949
	$ 17,799,460	$ (2,758,812)	$ 15,040,648

Note 7 Significant Concentration of Risk

The Organization would have intended 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 8 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 6, the Organization has a lease agreement with CAP. As of June 30, 2018 there were no balances between either party. The following is a summary of the related party activity for the year ended June 30, 2018:

Balance, beginning of year	$ -
Rental income	966,919
Net reimbursements	(966,919)
Balance, end of year	$ -

Note 9 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, 2018 was $101,466.

Note 10 Funding

The Organization receives 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 11 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 12 Subsequent Events

The Organization opened a fourth campus in Strawberry Mansion, Philadelphia in September 2018. The Organization will lease the 22,000 square foot facility from the School District of Philadelphia (SD) and will service approximately 300 students from grades 9-12. The lease with the SD is for the period September 1, 2018 to June 30, 2019 and is $8,031 per month. The Organization paid approximately $120,000 for furniture, equipment and other related start up costs.

On October 1, 2018, the Organization refinanced its existing long-term debt and Series B Bonds totaling $12,680,000 and also received additional proceeds of $6,385,000 from PNC Bank. The refinancing will include the issuance of $18,765,000 Series A Bonds and $280,000 Series B Bonds. The Series A Bonds are payable over 35 years with interest at 4.5% through June 1, 2029; 5.125% through June 1, 2038; 5.25% through June 1, 2048 and 5.375% through June 1, 2053 . The Series B Bonds are payable over 3 years with interest at 5.875%. The Bonds are secured by all tangible and intangible assets of the Organization and CAP and are subject to financial covenants.

The following is a schedule of required bond principal payments effective October 1, 2018:

Date	Principal On Series A Bonds	Original Issue Discount & Underwriter's Discount Amortization	Net Principal	Principal On Series B Bonds	Original Issue Discount & Underwriter's Discount Amortization	Net Principal
2019	$ 165,000	$ (4,461)	$ 160,539	$ 70,000	$ (34,529)	$ 35,471
2020	110,000	(4,461)	105,539	100,000	(34,529)	65,471
2021	110,000	(4,461)	105,539	110,000	(34,529)	75,471
2022	230,000	(4,461)	225,539	-	-	-
2023	240,000	(4,461)	235,539	-	-	-
Thereafter	17,930,000	(133,832)	17,796,168	-	-	-
	$ 18,785,000	$ (156,137)	$ 18,628,863	$ 280,000	$ (103,587)	$ 176,413

Note 12 Subsequent Events (Continued)

On October 1, 2018, the leases with CAP located at 1100-1140 East Erie Avenue, 1142-1152 East Erie Avenue and 2816-2822 North Fourth Street and related subleases were also amended for a term of 35 years as follows:

Years ending June 30,	Facilities	Facilities sublease income	Total
2019	$ 851,504	$ (131,983)	$ 719,521
2020	1,184,869	(183,655)	1,001,214
2021	1,184,044	(183,527)	1,000,517
2022	1,182,631	(183,308)	999,323
2023	1,182,281	(183,254)	999,027
Thereafter	36,727,419	(5,692,750)	31,034,669
	$ 42,312,748	$ (6,558,476)	$ 35,754,272

The Organization has evaluated subsequent events through October 31, 2018, the date which the financial statements were available to be issued.