

One Bright Ray, Inc.
Financial Statements
And
Independent Auditor's Report
Year Ended June 30, 2019

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, 2019, 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, 2019 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.

A handwritten signature in cursive script that reads 'SD Associates P.C.'.

Elkins Park, Pennsylvania
November 18, 2019

One Bright Ray, Inc.
Statement of Financial Position
June 30, 2019

Assets	
Current Assets	
Cash and cash equivalents	\$ 536,977
Assets whose use is limited	5,152,035
Accounts receivable from School District of Philadelphia	1,538,371
Accounts receivable, other	87,032
Prepaid expenses	13,333
Total current assets	7,327,748
Property and equipment, net	10,021,750
Deferred rental income	525,604
Total Assets	\$ 17,875,102
Liabilities	
Current Liabilities	
Bond payable, current portion	\$ 78,674
Accounts payable and accrued expenses	169,743
Total current liabilities	248,417
Bond payable, long-term portion	17,465,805
Total Liabilities	17,714,222
Net Assets	
Without donor restrictions	160,880
Total Liabilities and Net Assets	\$ 17,875,102

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions
Revenues	
Program revenues	
Program fees	\$ 9,843,381
Rental income	1,014,975
General revenues	
Student activity fees	89,980
Interest income	64,475
Total revenues	11,012,811
Expenses	
Program services:	
Payroll	6,025,912
Payroll taxes	534,247
Employee benefits	981,531
Rent and occupancy	373,335
Professional fees	184,107
Program costs and supplies	566,007
Insurance	121,528
Depreciation and amortization	700,322
Amortization-financing costs	359,192
Interest	772,654
Support services:	
General and administrative	315,053
Total expenses	10,933,888
Increase in net assets	78,923
Net Assets, beginning of year	81,957
Net Assets, end of year	\$ 160,880

See accompanying notes to financial statements.

One Bright Ray, Inc.
Statement of Cash Flows
Year Ended June 30, 2019

Cash Flows From Operating Activities	
Increase in net assets	\$ 78,923
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Amortization-financing costs	359,192
Deferred rental income	(132,591)
Depreciation and amortization	700,322
Increase (decrease) in current assets and liabilities	
Accounts receivable from School District of Philadelphia	(435,591)
Accounts receivable, other	27,878
Prepaid expenses	34,100
Accounts payable and accrued expenses	(75,178)
<hr/>	
Net cash provided by operating activities	557,055
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Cash Flows From Investing Activities	
Assets whose use is limited	(5,152,035)
Purchases of property and equipment	(806,645)
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Net cash used in investing activities	(5,958,680)
<hr/>	
Cash Flows From Financing Activities	
Proceeds from bonds issuance	19,065,000
Payoff of long-term debt	(10,240,000)
Payoff of bonds payable	(2,440,000)
Financing costs paid	(1,376,403)
Principal payments on bond payable	(235,000)
<hr/>	
Net cash provided by financing activities	4,773,597
<hr/>	
Net decrease in cash and cash equivalents	(628,028)
Cash and cash equivalents, beginning of year	1,165,005
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Cash and cash equivalents, end of year	\$ 536,977
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Supplemental Disclosure of Cash Flow Information	
Interest paid	\$ 809,707

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 four 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 One Bright Ray Community High School Elmwood Campus and One Bright Ray Community High School Mansion 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

Financial Statement Presentation

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor imposed restrictions. It requires that the amounts for each of the classes of net assets be displayed in the Statement of Financial Position and the amounts of change in each of those classes of net assets be displayed in the Statement of Activities.

In accordance with U.S. generally accepted accounting principles (U.S. GAAP), the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions- net assets available for general use to support operations. The only limits on the use of net assets without donor restrictions are broad limits resulting from the nature of the Organization, the environment in which it operates, and the purpose specified in its corporate documents.

Net assets with donor restrictions- net assets subject to donor restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or programmatic purposes specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There are no donor restrictions as of June 30, 2019.

Income from investment gains and losses, including unrealized gains and losses, dividends and interest, are reported as increases (or decreases) in net assets without donor restrictions unless the use of the income received is limited by donor imposed restrictions.

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.

One Bright Ray, Inc.
Notes to Financial Statements

Note 2 Summary of Significant Accounting Policies (Continued)

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 2016, 2017 and 2018 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 (Note 4). At June 30, 2019, cash and cash equivalents included \$536,977 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.

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, 2019 an allowance was not warranted.

Financing Costs

Financing costs consisting of original issue discount, costs of issuance, underwriter's discount and other related financing costs are presented in the Statement of Financial Position as a direct reduction from the carrying amount of bonds payable, consistent with the presentation of debt discounts. The costs are amortized on a straight-line basis over the life of the related bonds.

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)

Long Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. An impairment loss would be recognized when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount and fair value of the asset and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less the cost to sell. At June 30, 2019 management determined that no impairment was necessary.

Advertising Costs

All costs associated with advertising and promotions are recorded as expenditures in the year incurred.

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 Liquidity and Availability of Resources

The Organization's financial assets available for use within one year of the Statement of Financial Position date for general expenditures consist of the following as of June 30, 2019:

Cash and cash equivalents	\$ 536,977
Assets whose use is limited	5,152,035
Accounts receivable	1,625,403
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Financial assets available to meet cash needs for general expenditures within one year	7,314,415

The Organization's financial assets are all unrestricted. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Organization invests cash in excess of daily requirements in short term investments.

Note 4 Assets Whose Use Is Limited and Fair Value Measurements

In accordance with the terms of bond agreements, the Organization has established funds that are segregated for specific use and for security of the bondholders and are maintained by US Bank, an independent trustee (the Trustee) (Note 6). The funds are maintained in First American Government Obligation Funds, which are cash equivalents. These funds are presented as "Assets whose use is limited" in the accompanying Statement of Financial Position. The following is the composition of those funds as of June 30, 2019:

One Bright Ray, Inc.
Notes to Financial Statements

Note 4 Assets Whose Use Is Limited and Fair Value Measurements (Continued)

Philadelphia Authority for Industrial Development Revenue Bonds

Project Fund	\$ 3,596,093
Debt Service Reserve Fund	1,186,950
Repair & Replacement Fund	250,000
Revenue Fund	20,253
Bond Principal Fund	17,500
Bond Interest Fund	81,239
	\$ 5,152,035

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology include (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following are descriptions of the valuation methodologies used for assets measurement at fair value. There have been no changes in the methodologies used at June 30, 2019. The Organization may or may not have all of the following investments at June 30, 2019.

Common stock, corporate bonds and US government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the plan at year end.

Guaranteed investment contract: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions result in a different fair value measurement at the reporting date.

One Bright Ray, Inc.
Notes to Financial Statements

Note 4 Assets Whose Use Is Limited and Fair Value Measurements (Continued)

The following are the fair values of Assets Whose Use is Limited at June 30, 2019:

	Cost	Fair value	Unrealized Gain
Cash and cash equivalents	\$ 2,829,872	\$ 2,829,872	\$ -

Note 5 Property and Equipment

Property and equipment include the following at June 30, 2019:

Buildings and improvements	\$ 16,531,216
Leasehold improvements	1,520,062
Vehicles	86,882
Furniture and equipment	1,194,872
Website and software	48,181
	19,381,213
Less: accumulated depreciation and amortization	9,359,463
	<u>\$ 10,021,750</u>

Depreciation expense was \$700,322 for the year ended June 30, 2019.

Note 6 Bonds Payable

On October 1, 2018, the Organization refinanced its existing long-term debt and Series 2002B Bonds totaling \$12,680,000 and also received additional proceeds of \$6,385,000. The refinancing provided for the issuance of Philadelphia Authority for Industrial Development Series 2018A Bonds and Series 2018B Bonds of \$18,785,000 and \$280,000, respectively. The additional proceeds of \$6,385,000 were used to create various required reserve funds (Note 4) totaling approximately \$5,600,000 and to pay for financing and accrued interest costs totaling approximately \$785,000. The Series 2018A Bonds are payable to the Trustee 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 2018B Bonds are also payable to the Trustee over 3 years with interest at 5.875%.

The Organization had pledged to provide annual revenues principally, but not limited to, the collections from CAP, a related party as disclosed in Note 7 and 9 to the financial statements, pursuant to the leases. The bond agreements require that the Organization and CAP maintained a debt service coverage ratio of 1.10 to 1.0, lease payment coverage ratio of 1.0 to 1.0, at least 45 days cash on hand and other financial covenants. 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 and CAP have also pledged all rights, title and interest to their assets.

At June 30, 2019 bonds payable consists of the following:

	Bonds Payable	Financing Costs	Net
Series 2018A Bonds	\$ 18,620,000	\$ (1,075,521)	\$ 17,544,479
Series 2018B Bonds	210,000	(210,000)	-
	18,830,000	(1,285,521)	17,544,479
Less current portion of bonds payable	210,000	(131,326)	78,674
Long-term portion of bonds payable	<u>\$ 18,620,000</u>	<u>\$ (1,154,195)</u>	<u>\$ 17,465,805</u>

One Bright Ray, Inc. Notes to Financial Statements

Note 6 Bonds Payable (Continued)

Financing costs of \$1,376,403 are being amortized on a straight-line basis as a component of interest expense over the life of the bonds. Amortization expense was \$359,192 consisting of \$90,884 on the Series 2018A and 2018B bonds and \$268,308 of unamortized costs on the Series 2002B costs written off during the year.

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

Date	Principal		Interest on Series 2018A Bonds	Principal		Interest on Series Bonds	Total Debt Service
	On Series 2018A Bonds	Financing Cost Amortization		On Series 2016B Bonds	Financing Cost Amortization		
2020	\$ 110,000	\$ (31,326)	\$ 862,531	\$ 100,000	\$ (100,000)	\$ 112,338	\$ 1,053,543
2021	110,000	(31,326)	847,581	110,000	(110,000)	116,463	1,042,718
2022	230,000	(31,326)	952,631	-	-	-	1,151,305
2023	240,000	(31,326)	942,281	-	-	-	1,150,955
2024	255,000	(31,326)	931,481	-	-	-	1,155,155
Thereafter*	17,675,000	(918,891)	17,865,938	-	-	-	34,622,047
	\$ 18,620,000	\$ (1,075,521)	\$ 22,402,443	\$ 210,000	\$ (210,000)	\$ 228,801	\$ 40,175,723

Note 7 Operating Lease Commitments

Related Party Leases

The following lease and sublease agreements were amended on October 1, 2018 in accordance with the terms of the bond issuance:

The Organization leases three facilities to CAP, a related party, which are located at 1100-1140 East Erie Avenue, 1142-1152 East Erie Avenue and 2816-2822 North Fourth Street and are all located in Philadelphia. Gross rental income for these facilities was \$1,044,242 for the year ended June 30, 2019.

CAP subleases the 1142-1152 East Erie Avenue and 2816-2822 North Fourth Street locations to the Organization. The sublease rental expense totaled \$161,858 for the year ended June 30, 2019.

The lease and sublease agreements are for the periods October 1, 2018 through June 1, 2053. 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.

Net rental income from CAP is \$882,384 is being recognized in the financial statements on the straight-line basis, which is \$1,014,975 for the year ended June 30, 2019. The cumulative difference between rent received and rent calculated on the straight-line basis was \$525,604 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 \$85,655 for the year ended June 30, 2019.

One Bright Ray, Inc.
Notes to Financial Statements

Note 7 Operating Lease Commitments (Continued)

Other Operating Leases (Continued)

The Organization also leases another school facility at 3133 Ridge Avenue in Philadelphia from the School District of Philadelphia. The lease renews annually effective from July 1 to June 30 and is payable at \$8,031 per month with a 3% annual increase. The Organization is responsible for all maintenance and occupancy costs. Rent expense was \$93,372 for the year ended June 30, 2019.

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
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	\$ (183,253)	999,028
2024	1,186,481	\$ (183,904)	1,002,577
Thereafter	35,540,938	\$ (5,508,845)	30,032,093
	<u>\$41,461,244</u>	<u>\$ (6,426,492)</u>	<u>\$ 35,034,752</u>

Note 8 Significant Concentration of Risk

The Organization intends to make payments on the Series 2018A and 2018B Bonds 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 6, the Organization has a lease agreement with CAP. As of June 30, 2019 there were no balances between either party. The following is a summary of the related party activity for the year ended June 30, 2019:

Balance, beginning of year	\$	-
Rental income		882,384
Net reimbursements		(798,950)
Balance, end of year	<u>\$</u>	<u>83,434</u>

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, 2019 was \$151,698.

One Bright Ray, Inc.
Notes to Financial Statements

Note 11 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 12 Subsequent Events

On July 31, 2019, the Organization obtained a \$500,000 line of credit (the Line) from PNC Bank. Interest is payable at Libor plus 2.5% and expires July 31, 2020. The Line is subject to the same security and financial covenants as the Series 2018A and 2018B bonds. There have been no advances on the Line through November 18, 2019.

The Organization has evaluated subsequent events through November 18, 2019, the date which the financial statements were available to be issued.