

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2016

WITH INDEPENDENT AUDITOR'S REPORT THEREON

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Delta Properties Inc. and subsidiaries
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Delta Properties Inc. (Delta) (A California Nonprofit Public Benefit Corporation) and subsidiaries, which are comprised of the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 consolidated 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 from 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 Delta'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 Delta'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Delta as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Delta and subsidiaries' consolidated financial statement report dated December 15, 2015, in which we expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise Delta's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 16, 2016

FINANCIAL SECTION

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,359,270	\$ 448,071
Restricted cash and investments	6,115,008	553,145
Accounts receivable	-	1,939,471
Accounts receivable - related party	985,216	42,349
Prepaid expenses	-	5,878
Note receivable - related party, current portion	6,386,929	-
Total Current Assets	<u>15,846,423</u>	<u>2,988,914</u>
Non-Current Assets:		
Note receivable - related party	2,915,000	-
Restricted cash and investments	4,096,613	1,693,284
Debt issue costs, net	2,964,268	2,645,761
Fixed assets	57,245,794	56,694,700
Less: accumulated depreciation	7,539,871	6,128,868
Total Noncurrent Assets	<u>59,681,804</u>	<u>54,904,877</u>
Total Assets	<u>\$ 75,528,227</u>	<u>\$ 57,893,791</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accruals	\$ 162,344	\$ 134,319
Accounts payable - related party	592,454	396,959
Accrued interest payable	1,086,793	381,417
Note payable, current portion	6,812,048	16,278,151
Bonds payable, current portion	515,000	105,000
Deferred revenue	213,800	210,394
Total Current Liabilities	<u>9,382,439</u>	<u>17,506,240</u>
Long-Term Obligations		
Note payable, net of current portion	25,606,235	35,416,881
Bonds payable, net of current portion	39,091,088	7,770,812
Total Noncurrent Liabilities	<u>64,697,323</u>	<u>43,187,693</u>
Total Liabilities	<u>74,079,762</u>	<u>60,693,933</u>
NET ASSETS (DEFICIT)		
Unrestricted	<u>1,448,465</u>	<u>(2,800,142)</u>
Total Net Assets (Deficit)	<u>1,448,465</u>	<u>(2,800,142)</u>
Total Liabilities and Net Assets	<u>\$ 75,528,227</u>	<u>\$ 57,893,791</u>

The accompanying notes are an integral part of these financial statements.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Revenues and Support		
Donated services - related party	\$ 74,610	\$ 72,642
Rental income	5,598,849	3,709,381
Interest income	7,519	641
Other income	4,181,677	1,216,953
Total Revenues and support	<u>9,862,655</u>	<u>4,999,617</u>
Expenses		
Program Services:		
Interest	3,878,564	3,107,824
Other expenses	64,720	239,555
Management and general:		
Operating expenses	141,552	147,598
Total expenses before depreciation and amortization	<u>4,084,836</u>	<u>3,494,977</u>
Change in nets assets before depreciation and amortization	5,777,819	1,504,640
Depreciation	1,411,003	1,422,530
Amortization	118,209	104,931
Total Change in Net Assets	4,248,607	(22,821)
Net Assets (Deficit), Beginning of Year	<u>(2,800,142)</u>	<u>(2,777,321)</u>
Net Assets (Deficit), End of Year	<u>\$ 1,448,465</u>	<u>\$ (2,800,142)</u>

The accompanying notes are an integral part of these financial statements.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

CONSOLIDATED STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ 4,248,607	\$ (22,821)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,411,003	1,422,530
Amortization (including bond discount)	118,209	112,849
Loss on asset casualty	-	927,022
Amounts restricted for interest/debt obligation stipulations	(7,965,192)	303,021
(Increase) decrease in operating assets:		
Accounts receivable	1,939,471	(1,939,471)
Accounts receivable - related party	(942,867)	(8,473)
Note receivable - related party	(9,301,929)	-
Prepaid expenses	5,878	-
Increase (decrease) in operating liabilities:		
Accounts payable and accruals	28,025	101,011
Accounts payable - related party	195,495	94,391
Accrued interest payable	705,376	(36,437)
Deferred revenue	3,406	123,848
Net Cash Provided (Used) by Operating Activities	<u>(9,554,518)</u>	<u>1,077,470</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>(551,094)</u>	<u>(353,276)</u>
Cash Flows From Financing Activities		
Amounts incurred for debt issuance, net	(436,716)	(18,816)
Proceeds from bond payable	31,827,359	-
Repayments of notes payable	(19,276,749)	(99,707)
Repayments of bonds payable	(97,083)	(95,000)
Amounts restricted to meet debt obligations	-	(288,534)
Net Cash Provided (Used) by Financing Activities	<u>12,016,811</u>	<u>(502,057)</u>
Net Change in Cash and Cash Equivalents	1,911,199	222,137
Cash and Cash Equivalents, Beginning of Year	<u>448,071</u>	<u>225,934</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,359,270</u>	<u>\$ 448,071</u>
Supplemental Cash Flow Information		
Interest paid	<u>\$ 3,165,272</u>	<u>\$ 3,136,345</u>

The accompanying notes are an integral part of these financial statements.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - GENERAL

Delta Properties, Inc. (Delta) was formed in 2008 as a nonprofit public benefit corporation to support Green Dot Public Schools California (GDPS CA), formerly known as Green Dot Public Schools. Together with its subsidiaries, 111th Place, LLC (111th), 8255 Beach, LLC (Beach), 12628 Avalon, LLC (Avalon), Manchester & 27th LLC (Manchester), 1655 27th Street Facilities LLC (27th Street), and DPI 800 East 111th Place LLC (DPI) its primary purpose is the financing, development, leasing and maintenance of certain school facilities for the exclusive use of GDPS CA. GDPS CA represents a related party and transactions between GDPS CA and Delta have been identified on the face of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes

Delta is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Net assets consist of the following:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of Delta.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. Delta does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by Delta. Delta does not currently have any permanently restricted net assets.

Basis of Accounting

The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Delta defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Related Party

Delta, a California nonprofit public benefit corporation, was formed exclusively to support GDPS CA. GDPS CA is the sole corporate member of Delta.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited.

Prior Year Comparative Financial Information

The combined financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Delta's combined financial statements for the year ended June 30, 2015, from which the comparative information was derived.

Fixed Assets

Fixed assets are stated at cost if purchased or at estimated fair market value if donated. Depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. Delta capitalizes all expenditures for fixed assets in excess of \$5,000.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by Delta prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when Delta has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

Income Taxes

Delta is a nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as a public charity described in Section 509(a)(1) Type 1 supporting organizations and is exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Subsidiaries 111th, Beach and Avalon qualify for exemption from the California state LLC fee under California Revenue and Taxation Code Section 23701(x). Subsidiaries Manchester, 27th Street, and DPI qualify for exemption from the California state LLC fee under California Revenue and Taxation Code Section 23701(h). Accordingly, no provision for income taxes has been made. Delta files informational returns in the U.S. Federal jurisdiction, and the State of California. The statute of limitations for Federal and California State purposes is generally three and four years, respectively.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Delta has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Delta management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Consolidation

The consolidated financial statements include the accounts of Delta and its wholly owned subsidiary single member limited liability companies: 111th, Beach, Avalon, Manchester, 27th Street, and DPI. All material intercompany transactions have been eliminated. See the supplementary schedules on pages 19 and 20 for supplemental consolidating statements.

NOTE 3 - CONCENTRATION OF CREDIT RISK:

Delta maintains deposit and money market accounts with several financial institutions. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, cash in these deposit accounts exceeds the insured limits. At June 30, 2016, Delta had \$2,321,203 in excess of FDIC insured limits. Delta has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. Money market accounts are not protected against loss however, Delta's money market accounts are held in AAA rated investments. At June 30, 2016, there was \$8,912,362 held in money market funds.

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash and investments is held to satisfy current or long-term obligations. Restricted investments consist of money market funds which are carried at fair value in accordance with current accounting guidance. Restricted cash and investments at June 30, 2016, was comprised of the following:

	111th	Avalon	Manchester	27th Street	Delta	Total
Current restricted cash and investments	\$ 4,506,566	\$ -	\$ 397,789	\$ 28,047	\$ 1,182,606	\$ 6,115,008
Noncurrent restricted cash and investments	-	2,024,838	761,450	1,271,212	39,113	4,096,613
Total	\$ 4,506,566	\$ 2,024,838	\$ 1,159,239	\$ 1,299,259	\$ 1,221,719	\$ 10,211,621

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - ACCOUNTS RECEIVABLE

The balances of accounts receivable as of June 30, 2016, are as follows:

Related party	<u>\$ 985,216</u>
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NOTE 6 - NOTE RECEIVABLE – RELATED PARTY

On September 29, 2015, GDPS CA entered into an agreement to borrow from GDPSC 2015-2 TRUST \$6,386,929 with interest at 4.591% per annum. Accrued interest and principal are due and payable January 15, 2017. Proceeds from the agreement will be used to pay existing debt which matures on or about the same time. GDPSC 2015-2 TRUST is a trust established for the benefit of Delta.

On September 29, 2015, GDPS CA entered into a loan agreement with DPI for the benefit of *Ánimo James B. Taylor* Charter Middle School. DPI agreed to lend the principal sum of \$3,320,000 with no accrue interest on the principal sum outstanding with a maturity date on August 1, 2022. Monthly principal payment of \$45,000 is payable to DPI commencing on October 25, 2015. As of June 30, 2016, the outstanding loan balance is \$2,915,000.

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016, consisted of the following:

	<u>111th</u>	<u>Beach</u>	<u>Avalon</u>	<u>Manchester</u>	<u>27th Street</u>	<u>Total</u>
Land	\$ 4,286,305	\$ 5,179,000	\$ 1,894,806	\$ 1,956,419	\$ 5,098,030	\$ 18,414,560
Construction in progress	904,370	-	-	-	-	904,370
Buildings and improvements	1,979,252	6,500,000	6,821,301	4,480,135	17,710,098	37,490,786
Equipment	-	-	-	436,078	-	436,078
Subtotal	<u>7,169,927</u>	<u>11,679,000</u>	<u>8,716,107</u>	<u>6,872,632</u>	<u>22,808,128</u>	<u>57,245,794</u>
Less: accumulated depreciation	522,302	1,570,834	1,477,949	1,164,687	2,804,099	7,539,871
Total	<u>\$ 6,647,625</u>	<u>\$ 10,108,166</u>	<u>\$ 7,238,158</u>	<u>\$ 5,707,945</u>	<u>\$ 20,004,029</u>	<u>\$ 49,705,923</u>

Depreciation expense for the year ended June 30, 2016, was \$1,411,003.

Certain properties financed by New Market Tax Credit transactions are restricted for use as outlined in the financing agreements.

NOTE 8 - ACCOUNTS PAYABLE

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The balances of accounts payable as of June 30, 2016, are as follows:

Vendor	\$	162,344
Related party		592,454
Total Accounts Payable	\$	<u>754,798</u>

NOTE 9 - DEFERRED REVENUE

The balances of deferred revenue as of June 30, 2016, are as follows:

Other sources	\$	<u>213,800</u>
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DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - NOTES PAYABLE

The terms and balances of notes payable as of June 30, 2016, are as follows:

<u>Loan</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Callable Date</u>	<u>Payment Terms</u>	<u>Balance June 30, 2016</u>
12628 Avalon LLC	New markets tax credit financing arrangement obtained to purchase property in Los Angeles. Secured by interest in property purchased.	5.650%	12/15/16-12/15/39	N/A	Note A: Interest only through maturity. No prepayment permitted. Note B: Interest and principal through January 1, 2017. Interest only from January 1, 2017, through maturity. No prepayment permitted prior to December 15, 2016. Note C: Interest only through maturity. No prepayment permitted.	\$ 8,818,283
					Subtotal 12628 Avalon LLC	8,818,283
1655 27th Facilities, LLC	New markets tax credit financing arrangement obtained to purchase property in Los Angeles. Secured by interest in property purchased.	4.273-4.819%	10/12/18-10/12/41	N/A	Notes A and B: Interest only through maturity. No prepayment permitted. Note C: Interest only through September 30, 2018. Interest and principal from October 1, 2018, through maturity. No prepayment permitted.	21,200,000
					Subtotal 1655 27th Facilities LLC	21,200,000
Delta Properties, Inc.	Promissory note issued in conjunction with property purchased in Los Angeles. Secured by all interests or rights of Delta Properties, Inc.	**	10/12/41	N/A	No interest prior to October 12, 2018. Interest and principal from October 12, 2018, through maturity. Prepayments of principal are required, commencing on September 21, 2012, and each year thereafter, based on annual fiscal year (July 1-June 30) California Department of Education per student funding rates in excess of note terms. Principal payments were not required for the year ended June 30, 2016. Prepayment of principal permitted.	2,400,000
					Subtotal Delta Properties, Inc.	2,400,000
					Total Notes Payable	\$ 32,418,283

** Municipal Market Data (MMD) interest rate on 30-year municipal bonds with a rating of AAA plus 4.5-5.00% per annum through maturity. Adjusting factor increasing to 7.00% after maturity date of note.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - NOTES PAYABLE, continued

Future maturities of notes payable are as follows:

For the year Ending June 30,	Avalon	27th Street	Delta	Total
2017	\$ 6,812,048	\$ -	\$ -	\$ 6,812,048
2018	-	-	500,000	500,000
2019	-	16,683,745	500,000	17,183,745
2020	-	117,028	500,000	617,028
2021	-	123,572	500,000	623,572
Thereafter	2,006,235	4,275,655	400,000	6,681,890
Total	<u>\$ 8,818,283</u>	<u>\$ 21,200,000</u>	<u>\$ 2,400,000</u>	<u>\$ 32,418,283</u>

Costs associated with the issuance of these notes payable have been capitalized as debt issue costs. These costs are amortized over the term of the notes. Amortization of the issuance costs for the year ended June 30, 2016, amounted to \$67,844.

NOTE 11 - BONDS PAYABLE

In July 2011, Manchester obtained bond financing through the California Communities Development Authority. Details of these bonds are as follows:

Issuance	Description	Interest Rate	Maturity Date	Optional Redemption	Payment Terms	Balance June 30, 2016
Series 2011 A-1 & Series 2011 A-2	Tax exempt bond issues at an underwriter's discount utilized to acquire school facilities for use by GDPS CA. Issuance secured by deed of trust on those school facilities.	6.90-7.25%	8/1/31- 8/1/41	8/1/2021	Bond 1: Beginning February 1, 2012, interest coupon payments due semi-annually on February and August 1. Bond principal payments due annually August 1, beginning August 1, 2018. Bond 2: Beginning February 1, 2012, interest coupon payments due semi-annually on February and August 1. Bond principal payments due annually August 1, beginning August 1, 2032.	<u>\$ 7,630,000</u> Subtotal Series 2011 A <u>\$ 7,630,000</u>
Series 2011 B	Taxable bond issues at an underwriter's discount utilized to acquire school facilities for use by GDPS CA. Issuance secured by deed of trust on those school facilities.	8.50%	8/1/18	N/A	Beginning February 1, 2012, interest coupon payments due semi-annually on February and August 1. Bond principal payments due annually August 1, beginning August 1, 2012.	<u>\$ 275,000</u> Subtotal Series 2011 B <u>275,000</u> Less: unamortized discount <u>(126,271)</u> Subtotal Series 2011 <u>\$ 7,778,729</u>

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - BONDS PAYABLE, continued

Delta and GDPS CA obtained board approval to obtain a bond financing not to exceed \$35,000,000 on August 7, 2015, and August 3, 2015, respectively. The purpose of the bond financing was to refinance three New Market Tax Credit loans, refinance the facility loan for *Ánimo James B. Taylor*, obtain funds to reconstruct *Ánimo South LA CHS*, and secure lower interest rates.

The debt refinanced related to the Delta facilities for four GDPS CA schools: 111th Place LLC (*Ánimo South LA CHS*), 8255 Beach LLC (*Ánimo Pat Brown CHS*), 12628 Avalon LLC (*Ánimo Watts CHS*), and the newly formed entity DPI 800 East 111th Place LLC (*Ánimo James B. Taylor CMS*). The purpose of the newly formed entity is to hold the debt associated with the facility that *Ánimo James B. Taylor CMS* occupies. In addition to refinancing debt, the bond proceeds will be used to rebuild *Ánimo South LA CHS* with \$4,500,000 in project fund new money.

Due diligence was performed by Standard & Poor's and an investment grade rating of BBB- was assigned to GDPS CA. The bonds were priced on September 14, 2015 at a 4.6 percent weighted interest rate on a par amount of \$31,105,000. The bond transaction closed on September 29, 2015.

<u>Issuance</u>	<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Optional Redemption</u>	<u>Payment Terms</u>	<u>Balance June 30, 2016</u>
Series 2015 A	Tax-exempt bond issued at a an underwriter's discount utilized to acquire, construct, expand, remodel, renovate, improve, furnish and equip school facilities for use by GDPS CA. Issuance secured by deed of trust on those school facilities.	4.00-4.70%	8/1/25-8/1/45	N/A	Beginning February 1, 2016, interest coupon payments due semi-annually on February 1 and August 1. Bond principal payments due annually August 1, beginning August 1, 2023.	\$ 26,710,000
Subtotal Series 2015 A						\$ 26,710,000
Series 2015 B	Taxable bond issued at a an underwriter's discount utilized to acquire, construct, expand, remodel, renovate, improve, furnish and equip school facilities for use by GDPS CA. Issuance secured by deed of trust on those school facilities.	5.00%	8/1/23	N/A	Beginning February 1, 2016, interest coupon payments due semi-annually on February 1 and August 1. Bond principal payments due annually August 1, beginning August 1, 2016.	\$ 4,395,000
Subtotal Series 2015 B						\$ 4,395,000

The bond agreement requires Manchester to comply with various covenants, conditions and restrictions including maintaining certain financial ratios. Manchester is required to maintain a bond reserve cash account in an amount equal to the lesser: of (a) ten percent of the proceeds of the bonds; (b) maximum annual debt service with respect to the Series 2011A and Series 2011B Bonds Outstanding; or (c) 125 percent of average annual debt service with respect to the Bonds. As of June 30, 2016, the reserve requirement amounted to \$761,450 and is reported as restricted cash and investments on the statement of financial position.

Bonds payable are reported on the balance sheet net of a \$126,271 bond discount and \$722,359 bond premium. The discount is being amortized to interest expense over the life of the bonds. The amortized bond discount and premium charged to interest expense for the year ended June 30, 2016, was \$7,917 and \$18,522, respectively.

DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - BONDS PAYABLE, continued

Costs associated with the issuance of these bonds payable have been capitalized as debt issue costs. These costs are amortized over the term of the notes. Amortization of the issuance costs for the year ended June 30, 2016, amounted to \$50,365.

Future maturities of bonds payable are as follows:

Fiscal Year Ending June 30,	
2017	\$ 515,000
2018	620,000
2019	655,000
2020	695,000
2021	730,000
Thereafter	<u>35,795,000</u>
Total future maturities	39,010,000
Plus: unamortized premium	722,359
Less: unamortized discount	(126,271)
Total	<u><u>\$ 39,606,088</u></u>

NOTE 12 - OPERATING LEASES

Delta's subsidiaries each lease property to GDPS CA, a related party, for the operation of charter schools. Each lease requires monthly rent payments based on their respective lease agreements with GDPS CA. Additional rent may also be required based on amounts paid by the lessor for operating and maintaining the facilities.

Rent revenue from GDPS CA for the year ended June 30, 2016 was \$5,598,849. The cost and book value of the leased properties is described in Note 4. Estimated future minimum lease payments are as follows:

Fiscal Year Ending June 30,	111th	Beach	Avalon	Manchester	27th Street	Total
2017	\$ 602,710	\$ 523,860	\$ 632,831	\$ 676,998	\$ 1,280,700	\$ 3,717,099
2018	583,550	504,700	504,700	676,797	1,280,700	3,550,447
2019	574,773	495,923	504,700	677,108	1,560,233	3,812,737
2020	565,494	486,644	495,923	677,488	1,560,233	3,785,782
2021	528,597	449,747	449,747	677,097	1,280,700	3,385,888
Thereafter	18,093,697	15,300,097	15,300,097	3,396,563	17,984,066	70,074,520
Total	<u><u>\$ 20,948,821</u></u>	<u><u>\$ 17,760,971</u></u>	<u><u>\$ 17,887,998</u></u>	<u><u>\$ 6,782,051</u></u>	<u><u>\$ 24,946,632</u></u>	<u><u>\$ 88,326,473</u></u>

DELTA PROPERTIES INC. AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13 - FINANCIAL INSTRUMENTS:

The carrying amounts and estimated fair values of Delta's financial instruments as of June 30, 2016, are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 2,359,270	\$ 2,359,270
Restricted cash and investments	\$ 10,211,621	\$ 10,211,621
Notes payable	\$ 32,418,283	\$ 34,332,140
Bonds payable	\$ 39,606,088	\$ 39,606,088

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents - The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Restricted cash and investments - The carrying amount reported in the statement of financial position approximates fair value from quoted prices in active markets for identical assets.

Notes Payable - The fair value of Notes Payable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Bonds Payable - The fair values of bonds payable are based on quoted market prices for the same issues. The carrying amount reported in the statement of financial position approximates fair value.

Per FASB ASC 825-10-50, Delta must disclose the fair market value of its financial instruments despite being a nonprofit corporation as the entity meets the definition of a "publicly held organization." Delta qualifies as a publicly held organization due to the Manchester Bonds Payable, which makes Delta a conduit bond obligor for conduit debt securities that are traded in a public market. Please note that the holder of the note is not Delta.

DELTA PROPERTIES INC. AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 - SUBSEQUENT EVENTS

Delta evaluated their June 30, 2016, consolidated financial statements for subsequent events through December 16, 2016, the date the financial statements were available to be issued. Delta is not aware of any subsequent events, other than those noted below, which would require recognition or disclosure in the accompanying financial statements.

In July 2014, a fire occurred at the premises of *Ánimo South Los Angeles CHS*. Delta leases the property to GDPS CA. Two buildings remain intact and the third building was destroyed in the fire. During the 2017 Fiscal school year, *Ánimo South Los Angeles CHS* 9th and 10th grade students will continue to attend classes in the building not affected by the fire. *Ánimo South Los Angeles CHS* 11th and 12th grade students will occupy available space at the *Ánimo Western CMS* and *Ánimo Phillis Wheatley CMS* facility.

The building and the contents will be covered by insurance at replacement cost. In addition, GDPS CA will be compensated for loss of business income and additional costs incurred due to the fire. In Fiscal 2015, the net book value of the building destroyed in the fire was written off in the amount of \$927,025. The loss of the building was offset by \$1,939,454 in insurance revenue due to cash received from the insurance company. Therefore, revenue from insurance proceeds, net of the building lost was \$1,012,428; this transaction was presented as "Other Income" on the face of the financials. Planning for the new building and finalization of the insurance claim is still in process. Once the claim is finalized, any additional insurance revenue will be recognized in fiscal year 2017.

GDPS CA plans to reconstruct the 11,000 square foot building with the insurance proceeds. In conjunction with the construction, GDPS CA is considering adding square footage and making other campus improvements to enhance the educational environment. The additional square footage and the other improvements are to be financed with \$4,500,000 in new money outlined in the September 29, 2015, bond financing.

SUPPLEMENTARY INFORMATION

DELTA PROPERTIES INC. AND SUBSIDIARIES
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	111th Place LLC	8255 Beach LLC	12628 Avalon LLC	Manchester & 27th LLC	1655 27th St. Facilities LLC	DPI	Delta	Inter-company Eliminations	Total
Assets									
Current Assets									
Cash and cash equivalents	\$ 2,005,288	\$ 58,069	\$ 58,357	\$ -	\$ 184,483	\$ -	\$ 53,073	\$ -	\$ 2,359,270
Restricted cash and investments	4,506,566	-	-	397,789	28,047	-	1,182,606	-	6,115,008
Accounts receivable - related party	16,500	22,019	50,621	-	876,864	-	19,212	-	985,216
Inter-company accounts receivable	75,833	363,408	311,735	-	1,114	405,000	-	(1,157,090)	-
Note receivable - related party, current portion	-	-	6,386,929	-	-	-	-	-	6,386,929
Total Current Assets	<u>6,604,187</u>	<u>443,496</u>	<u>6,807,642</u>	<u>397,789</u>	<u>1,090,508</u>	<u>405,000</u>	<u>1,254,891</u>	<u>(1,157,090)</u>	<u>15,846,423</u>
Non-Current Assets									
Note receivable - related party	-	-	-	-	-	2,915,000	2,400,000	(2,400,000)	2,915,000
Restricted cash and investments	-	-	2,024,838	761,450	1,271,212	-	39,113	-	4,096,613
Debt issue costs, net	281,661	500,778	732,650	441,000	1,008,179	-	-	-	2,964,268
Fixed assets	7,169,927	11,679,000	8,716,107	6,872,632	22,808,128	-	-	-	57,245,794
Less: accumulated depreciation	522,302	1,570,834	1,477,949	1,164,687	2,804,099	-	-	-	7,539,871
Total Noncurrent Assets	<u>6,929,286</u>	<u>10,608,944</u>	<u>9,995,646</u>	<u>6,910,395</u>	<u>22,283,420</u>	<u>2,915,000</u>	<u>2,439,113</u>	<u>(2,400,000)</u>	<u>59,681,804</u>
Total Assets	<u>\$ 13,533,473</u>	<u>\$ 11,052,440</u>	<u>\$ 16,803,288</u>	<u>\$ 7,308,184</u>	<u>\$ 23,373,928</u>	<u>\$ 3,320,000</u>	<u>\$ 3,694,004</u>	<u>\$ (3,557,090)</u>	<u>\$ 75,528,227</u>
Liabilities									
Current Liabilities									
Accounts payable and accruals	13,904	3,321	3,678	756	4,718	-	135,967	-	\$ 162,344
Accounts payable - related party	592,454	-	-	-	-	-	-	-	592,454
Accrued interest payable	282,942	243,517	243,517	235,978	80,839	-	-	-	1,086,793
Inter-company accounts payable	-	-	-	105	-	-	1,156,985	(1,157,090)	-
Note payable, current portion	-	-	6,812,048	-	-	-	-	-	6,812,048
Bonds payable, current portion	-	-	-	110,000	-	405,000	-	-	515,000
Deferred revenue	107,049	76,707	30,044	-	-	-	-	-	213,800
Total Current Liabilities	<u>996,349</u>	<u>323,545</u>	<u>7,089,287</u>	<u>346,839</u>	<u>85,557</u>	<u>405,000</u>	<u>1,292,952</u>	<u>(1,157,090)</u>	<u>9,382,439</u>
Noncurrent liabilities									
Inter-company notes payable	-	-	-	-	2,400,000	-	-	(2,400,000)	-
Note payable, net of current portion	-	-	2,006,235	-	21,200,000	-	2,400,000	-	25,606,235
Bonds payable, net of current portion	10,593,431	8,956,964	8,956,964	7,668,729	-	2,915,000	-	-	39,091,088
Total Noncurrent Liabilities	<u>10,593,431</u>	<u>8,956,964</u>	<u>10,963,199</u>	<u>7,668,729</u>	<u>23,600,000</u>	<u>2,915,000</u>	<u>2,400,000</u>	<u>(2,400,000)</u>	<u>64,697,323</u>
Total Liabilities	<u>11,589,780</u>	<u>9,280,509</u>	<u>18,052,486</u>	<u>8,015,568</u>	<u>23,685,557</u>	<u>3,320,000</u>	<u>3,692,952</u>	<u>(3,557,090)</u>	<u>74,079,762</u>
Net Assets									
Unrestricted	1,943,693	1,771,931	(1,249,198)	(707,384)	(311,629)	-	1,052	-	1,448,465
Total Net Assets (Deficit)	<u>1,943,693</u>	<u>1,771,931</u>	<u>(1,249,198)</u>	<u>(707,384)</u>	<u>(311,629)</u>	<u>-</u>	<u>1,052</u>	<u>-</u>	<u>1,448,465</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 13,533,473</u>	<u>\$ 11,052,440</u>	<u>\$ 16,803,288</u>	<u>\$ 7,308,184</u>	<u>\$ 23,373,928</u>	<u>\$ 3,320,000</u>	<u>\$ 3,694,004</u>	<u>\$ (3,557,090)</u>	<u>\$ 75,528,227</u>

See accompanying independent auditor's report.

DELTA PROPERTIES INC. AND SUBSIDIARIES
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CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2016

	111th Place LLC	8255 Beach LLC	12628 Avalon LLC	Manchester & 27th LLC	1655 27th St. Facilities LLC	DPI	Delta	Inter-company Eliminations	Total
Revenues									
Donated services - related party	\$ 12,768	\$ 10,427	\$ 15,852	\$ 6,895	\$ 22,051	\$ 3,132	\$ 3,485	\$ -	\$ 74,610
Rental income	617,702	1,000,898	1,053,578	779,133	2,147,538	-	-	-	5,598,849
Interest income	3,866	-	1,737	500	905	-	511	-	7,519
Other income	1,533,044	2,584,087	4,786	24,140	6,583	-	29,037	-	4,181,677
Total Revenue and support	2,167,380	3,595,412	1,075,953	810,668	2,177,077	3,132	33,033	-	9,862,655
Expenses									
Program Services:									
Interest	571,501	829,407	916,411	575,009	986,236	-	-	-	3,878,564
Other expenses	7,934	10,087	7,879	32,938	5,882	-	-	-	64,720
Management and general:									
Operating expenses	28,196	22,011	22,625	17,702	33,562	3,132	14,324	-	141,552
Total expenses before depreciation and amortization	607,631	861,505	946,915	625,649	1,025,680	3,132	14,324	-	4,084,836
Change in nets assets before depreciation and amortization	1,559,749	2,733,907	129,038	185,019	1,151,397	-	18,709	-	5,777,819
Depreciation	65,975	216,667	227,377	310,647	590,337	-	-	-	1,411,003
Amortization	12,306	25,608	22,786	17,581	39,928	-	-	-	118,209
Total change in net assets	1,481,468	2,491,632	(121,125)	(143,209)	521,132	-	18,709	-	4,248,607
Net Assets (Deficit), beginning of year	462,225	(719,701)	(1,128,073)	(564,175)	(832,761)	-	(17,657)	-	(2,800,142)
Net Assets (Deficit), end of year	\$ 1,943,693	\$ 1,771,931	\$ (1,249,198)	\$ (707,384)	\$ (311,629)	\$ -	\$ 1,052	\$ -	\$ 1,448,465

See accompanying independent auditor's report.