

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

CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2018

WITH INDEPENDENT AUDITOR'S REPORT THEREON

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

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JUNE 30, 2018

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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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, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2018, 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's consolidated financial statement report dated December 18, 2017, in which we expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2018, 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 as a whole. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated 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 consolidated financial statements as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
January 11, 2019

FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 350,242	\$ 1,300,319
Restricted cash and investments	4,234,896	6,209,366
Accounts receivable - related party	505,671	1,566,701
Prepaid expenses	-	32,760
Total Current Assets	<u>5,090,809</u>	<u>9,109,146</u>
Non-Current Assets:		
Restricted cash and investments	3,769,643	4,467,832
Note receivable - related party	1,886,667	2,411,667
Debt issue costs, net	2,525,299	2,626,520
Fixed assets	62,563,331	58,758,776
Less: accumulated depreciation	10,321,493	8,915,859
Total Non-Current Assets	<u>60,423,447</u>	<u>59,348,936</u>
Total Assets	<u>\$ 65,514,256</u>	<u>\$ 68,458,082</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 55,182	\$ 741,361
Accounts payable - related party	432,379	534,805
Interest payable	1,068,828	1,081,343
Deferred revenue	347,303	290,481
Current portion of long-term obligations	17,585,261	1,909,787
Total Current Liabilities	<u>19,488,953</u>	<u>4,557,777</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	42,298,786	59,900,826
Total Long-Term Obligations	<u>42,298,786</u>	<u>59,900,826</u>
Total Liabilities	<u>61,787,739</u>	<u>64,458,603</u>
NET ASSETS		
Unrestricted	3,726,517	3,999,479
Total Net Assets	<u>3,726,517</u>	<u>3,999,479</u>
Total Liabilities and Net Assets	<u>\$ 65,514,256</u>	<u>\$ 68,458,082</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

(With comparative financial information for the year ended June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGE IN UNRESTRICTED NET ASSETS		
REVENUE		
Donated services - related party	\$ 79,384	\$ 79,385
Rental income	3,581,976	5,114,007
Interest income	74,954	30,954
Other income (Note 11)	662,071	-
Other income	89,960	2,353,707
Total Revenues and Support	<u>4,488,345</u>	<u>7,578,053</u>
EXPENSE		
Program Services:		
Interest	3,061,557	3,299,721
Other expenses	77,603	69,030
Management and General:		
Operating expenses	115,292	176,884
Total Expenses Before Depreciation and Amortization	<u>3,254,452</u>	<u>3,545,635</u>
Change In Net Assets Before Depreciation and Amortization	1,233,893	4,032,418
Depreciation	1,405,634	1,375,988
Amortization	101,221	105,416
CHANGE IN UNRESTRICTED NET ASSETS	(272,962)	2,551,014
NET ASSETS, BEGINNING OF THE YEAR	3,999,479	1,448,465
NET ASSETS, END OF YEAR	<u>\$ 3,726,517</u>	<u>\$ 3,999,479</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 for the year ended June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	\$ (272,962)	\$ 2,551,014
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	1,405,634	1,375,988
Amortization (including bond discount)	109,139	105,416
Amounts restricted for interest/debt obligation stipulations	2,672,659	(465,577)
Changes in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable - related party	1,061,030	(581,485)
Note receivable - related party	525,000	6,890,262
Prepaid expenses	32,760	(32,760)
Increase (decrease) in operating liabilities:		
Accounts payable and accruals	(686,179)	579,017
Accounts payable - related party	(102,426)	(57,649)
Accrued interest payable	(12,515)	(5,450)
Deferred revenue	56,822	76,681
Net Cash Provided by Operating Activities	<u>4,788,962</u>	<u>10,435,457</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(3,804,555)</u>	<u>(1,512,982)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts incurred for debt issuance, net	-	232,332
Repayments of notes payable, net	(1,289,787)	(9,681,980)
Repayments of bonds payable, net	(644,697)	(531,778)
Net Cash Used by Financing Activities	<u>(1,934,484)</u>	<u>(9,981,426)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(950,077)	(1,058,951)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,300,319</u>	<u>2,359,270</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 350,242</u>	<u>\$ 1,300,319</u>
Supplemental Cash Flow Information		
Cash paid during the period for interest	<u>\$ 3,066,156</u>	<u>\$ 3,297,255</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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

The significant policies followed by Delta are described below to enhance the use of the finance statements to the reader.

Financial Statement Presentation

Delta is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, Delta is required to present a State of Cash Flows. 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.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to non-profit public benefit corporations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. Delta uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Related Party

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 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.

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.

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.

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, 2017, from which the comparative information was derived.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2018, management has determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

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 of fixed assets in excess of \$5,000. Depreciation expense for the year ended June 30, 2018, was \$1,405,634.

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.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. Delta had no designated net assets at June 30, 2018.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

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, 2018, Delta had \$103,718 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, 2018, there was \$6,745,424 held in money market funds.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, was comprised of the following:

	111th	Manchester	27th Street	Delta	Total
Current restricted cash and investments	\$ 1,424,581	\$ 414,190	\$ 1,087,995	\$ 1,308,130	\$ 4,234,896
Noncurrent restricted cash and investments	-	765,296	744,163	2,260,184	3,769,643
Total	<u>\$ 1,424,581</u>	<u>\$ 1,179,486</u>	<u>\$ 1,832,158</u>	<u>\$ 3,568,314</u>	<u>\$ 8,004,539</u>

NOTE 5 - ACCOUNTS RECEIVABLE – RELATED PARTY

The balances of accounts receivable as of June 30, 2018, are as follows:

Related party	<u>\$ 505,671</u>
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NOTE 6 - NOTE RECEIVABLE – RELATED PARTY

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 accrued interest on the principal sum outstanding with a maturity date of August 1, 2022. Monthly principal payments of \$45,000 are payable to DPI commencing on October 25, 2015. As of June 30, 2018, the outstanding loan balance is \$1,886,667.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018, consisted of the following:

	111th	Beach	Avalon	Manchester	27th Street	Total
Land	\$ 4,286,305	\$ 5,179,000	\$ 1,894,806	\$ 1,956,419	\$ 5,098,030	\$ 18,414,560
Construction in progress	147,314	-	-	-	-	147,314
Buildings and improvements	8,053,845	6,500,000	6,821,301	4,480,135	17,710,098	43,565,379
Equipment	-	-	-	436,078	-	436,078
Subtotal	12,487,464	11,679,000	8,716,107	6,872,632	22,808,128	62,563,331
Less: accumulated depreciation	(741,630)	(2,004,167)	(1,932,702)	(1,658,222)	(3,984,772)	(10,321,493)
Total	<u>\$11,745,834</u>	<u>\$ 9,674,833</u>	<u>\$ 6,783,405</u>	<u>\$ 5,214,410</u>	<u>\$ 18,823,356</u>	<u>\$ 52,241,838</u>

Depreciation expense for the year ended June 30, 2018, was \$1,405,634.

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

NOTE 8 - ACCOUNTS PAYABLE – RELATED PARTY

The balances of accounts payable as of June 30, 2018, are as follows:

Accruals	\$ 55,182
Related party	432,379
Total Accounts Payable	<u>\$ 487,561</u>

NOTE 9 - DEFERRED REVENUE

The balances of deferred revenue as of June 30, 2018, are as follows:

Other sources	<u>\$ 347,303</u>
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DELTA PROPERTIES INC. AND SUBSIDIARIES
(A California Nonprofit Public Benefit Organization)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 - NOTES PAYABLE

The terms and balances of notes payable as of June 30, 2018, are as follows:

Loan	Description	Interest Rate	Maturity Date	Callable Date	Payment Terms	Balance June 30, 2018
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.	
					Subtotal 1655 27th Facilities LLC	<u>\$ 21,200,000</u> <u>21,200,000</u>
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. Prepayment of principal permitted.	
					Subtotal Delta Properties, Inc.	<u>246,516</u> <u>246,516</u>
					Total Notes Payable	<u><u>\$ 21,446,516</u></u>

** 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.

Future maturities of notes payable are as follows:

For the year Ending June 30,	27th Street	Delta	Total
2019	\$ 16,683,745	\$ 246,516	\$ 16,930,261
2020	117,448	-	117,448
2021	123,572	-	123,572
2022	129,416	-	129,416
2023	135,537	-	135,537
Thereafter	4,010,282	-	4,010,282
Total	<u><u>\$ 21,200,000</u></u>	<u><u>\$ 246,516</u></u>	<u><u>\$ 21,446,516</u></u>

Costs associated with the issuance of these notes payable have been capitalized as debt issuance costs. These costs are amortized over the term of the notes. Amortization of the issuance costs for the year ended June 30, 2018, amounted to \$39,928.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018
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.	\$ 7,630,000
					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.	\$ 45,000
					Subtotal Series 2011 B	<u>45,000</u>
					Less: unamortized discount	<u>(110,436)</u>
					Subtotal Series 2011	<u>\$ 7,564,564</u>

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, 2018, the reserve requirement amounted to \$762,160 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 \$110,436 bond discount. The discount is being amortized to interest expense over the life of the bonds. The amortized bond discount charged to interest expense for the year ended June 30, 2018, was \$7,918.

Delta and GDPS CA obtained board approval to obtain 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 money.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11 - BONDS PAYABLE, continued

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.

Issuance	Description	Interest Rate	Maturity Date	Optional Redemption	Payment Terms	Balance June 30, 2018
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.	\$ 3,490,000
					Subtotal Series 2015 B	3,490,000
					Plus: Premium	672,967
					Subtotal Series 2015	\$ 30,872,967
					Subtotal Series 2011	7,564,564
					Total Bonds Payable	\$ 38,437,531

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, 2018, amounted to \$61,293.

Bonds payable are reported on the balance sheet net of a \$672,967 bond premium. The premium is being amortized to interest expense over the life of the bonds. The amortized premium charged to interest expense for the year ended June 30, 2018, was \$24,697.

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JUNE 30, 2018

Future maturities of bonds payable are as follows:

Fiscal Year Ending June 30,	
2019	655,000
2020	695,000
2021	730,000
2022	770,000
2023	815,000
Thereafter	34,210,000
Total future maturities	37,875,000
Plus: unamortized premium	672,967
Less: unamortized discount	(110,436)
Total	<u>\$ 38,437,531</u>

NOTE 12 - OPERATING LEASES

Delta's subsidiaries 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, 2018, was \$3,581,976. 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
2019	\$ 574,773	\$ 495,923	\$ 495,923	\$ 677,108	\$ 1,560,233	\$ 3,803,960
2020	565,494	486,644	486,644	677,488	1,700,000	3,916,270
2021	528,597	449,747	449,747	677,098	1,700,000	3,805,189
2022	683,398	604,548	604,548	681,058	425,000	2,998,552
2023	757,698	638,848	638,848	678,983	-	2,714,377
Thereafter	16,652,601	14,056,701	14,056,701	2,036,521	-	46,802,524
Total	<u>\$ 19,762,561</u>	<u>\$ 16,732,411</u>	<u>\$ 16,732,411</u>	<u>\$ 5,428,256</u>	<u>\$ 5,385,233</u>	<u>\$ 64,040,872</u>

DELTA PROPERTIES INC. AND SUBSIDIARIES
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 - FINANCIAL INSTRUMENTS:

The carrying amounts and estimated fair values of Delta's financial instruments as of June 30, 2018, are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 350,242	\$ 350,242
Restricted cash and investments	\$ 8,004,539	\$ 8,004,539
Notes payable	\$ 21,446,516	\$ 19,433,587
Bonds payable	\$ 37,875,000	\$ 39,449,122

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 - SUBSEQUENT EVENTS

Delta evaluated their June 30, 2018, consolidated financial statements for subsequent events through January 11, 2019, 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.

On October 11, 2018, GDPS CA closed on the 2018 Series A (tax-exempt) and Series B bond (taxable) offering for \$56,155,000. Proceeds from the bond will be used to refinance, purchase and improve various school properties for the benefit of GDPS CA schools. The bonds have maturity dates ranging from 2020 to 2048. If all bonds are held to maturity the combined yield would be 4.45%.

The new market tax credit loan refinancing for the Animo Jefferson and Animo Ralph Bunch facility will yield a gain on forgiveness of debt of approximately \$4.6 million.

The following projects are financed with the 2018 bonds:

Acquisition of the existing James B. Taylor facility	\$6,900,000
Tenant improvements to the additional James B. Taylor facility	\$2,000,000
Acquisition of the Animo Mae Jemison facility	\$8,531,607
Construction of the new gym at the Animo Leadership facility	\$4,616,000
Construction of the new Animo Pat Brown facility	\$16,943,566
New Market Tax Credit Loan refinancing for the Animo Jefferson and Animo Ralph Bunch facility	\$16,644,765

SUPPLEMENTARY INFORMATION

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DELTA PROPERTIES INC. AND SUBSIDIARIES
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

	1111th Place LLC	8255 Beach LLC	12628 Avalon LLC	Manchester & 27th LLC	1655 27th St. Facilities LLC	DPI	Delta	Inter-company Eliminations	Total
Current Assets:									
Cash and cash equivalents	\$ 20,862	\$ 58,069	\$ 45,055	\$ -	\$ 155,736	\$ -	\$ 70,520	\$ -	\$ 350,242
Restricted cash and investments	1,424,581	-	-	414,190	1,087,995	-	1,308,130	-	4,234,896
Accounts receivable - related party	10,274	10,274	10,274	-	246,516	228,333	-	-	505,671
Inter-company accounts receivable	506,157	436,655	402,552	3,663	3,919	300,480	246,516	(1,899,942)	-
Total Current Assets	1,961,874	504,998	457,881	417,853	1,494,166	528,813	1,625,166	(1,899,942)	5,090,809
Non-Current Assets:									
Restricted cash and investments	-	-	-	765,296	744,163	-	2,260,184	-	3,769,643
Inter-company accounts receivable	645,694	545,947	545,947	-	-	285,912	-	(2,023,500)	-
Note receivable - related party	-	-	-	-	-	1,886,667	-	-	1,886,667
Debt issue costs, net	262,402	466,536	462,201	405,837	928,323	-	-	-	2,525,299
Fixed assets	12,487,464	11,679,000	8,716,107	6,872,632	22,808,128	-	-	-	62,563,331
Less: accumulated depreciation	741,630	2,004,167	1,932,702	1,658,222	3,984,772	-	-	-	10,321,493
Total Non-Current Assets	12,653,930	10,687,316	7,791,553	6,385,543	20,495,842	2,172,579	2,260,184	(2,023,500)	60,423,447
Total Assets	\$ 14,615,804	\$ 11,192,314	\$ 8,249,434	\$ 6,803,396	\$ 21,990,008	\$ 2,701,392	\$ 3,885,350	\$ (3,923,442)	\$ 65,514,256

LIABILITIES

Current Liabilities:									
Accounts payable and accruals	27,699	13,648	13,795	-	-	-	40	-	\$ 55,182
Accounts payable - related party	432,379	-	-	-	-	-	-	-	432,379
Interest payable	275,400	235,975	235,975	273,399	48,079	-	-	-	1,068,828
Inter-company accounts payable	-	-	-	-	246,516	-	1,653,426	(1,899,942)	-
Deferred revenue	107,049	76,707	-	56,821	106,726	-	-	-	347,303
Current portion of long-term obligations	-	-	-	130,000	16,683,745	525,000	246,516	-	17,585,261
Total Current Liabilities	842,527	326,330	249,770	460,220	17,085,066	525,000	1,899,982	(1,899,942)	19,488,953
Long-Term Obligations:									
Inter-company accounts payable	-	-	-	-	-	-	2,023,500	(2,023,500)	-
Non-current portion of long-term obligations	11,220,771	9,487,392	7,463,892	7,434,564	4,516,255	2,175,912	-	-	42,298,786
Total Long-Term Obligations	11,220,771	9,487,392	7,463,892	7,434,564	4,516,255	2,175,912	2,023,500	(2,023,500)	42,298,786
Total Liabilities	12,063,298	9,813,722	7,713,662	7,894,784	21,601,321	2,700,912	3,923,482	(3,923,442)	61,787,739
NET ASSETS									
Unrestricted	2,552,506	1,378,592	535,772	(1,091,388)	388,687	480	(38,132)	-	3,726,517
Total Net Assets (Deficit)	2,552,506	1,378,592	535,772	(1,091,388)	388,687	480	(38,132)	-	3,726,517
Total Liabilities and Net Assets (Deficit)	\$ 14,615,804	\$ 11,192,314	\$ 8,249,434	\$ 6,803,396	\$ 21,990,008	\$ 2,701,392	\$ 3,885,350	\$ (3,923,442)	\$ 65,514,256

See accompanying independent auditor's report.

DELTA PROPERTIES INC. AND SUBSIDIARIES
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CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2018

	111th Place LLC	8255 Beach LLC	12628 Avalon LLC	Manchester & 27th LLC	1655 27th St. Facilities LLC	DPI	Delta	Inter-company Eliminations	Total
CHANGE IN UNRESTRICTED NET ASSETS									
REVENUE									
Donated services - related party	\$ 14,408	\$ 11,660	\$ 10,928	\$ 7,908	\$ 27,508	\$ 2,995	\$ 3,977	\$ -	\$ 79,384
Rental income	582,527	503,677	503,677	625,029	1,367,066	-	-	-	3,581,976
Interest income	35,223	3,517	25,008	8,130	2,981	95	-	-	74,954
Other income (Note 11)	662,071	-	-	-	-	-	-	-	662,071
Other income	9,532	12,132	9,568	43,678	7,380	-	7,670	-	89,960
Total Revenue and support	1,303,761	530,986	549,181	684,745	1,404,935	3,090	11,647	-	4,488,345
EXPENSES									
Program Services:									
Interest	546,773	469,341	469,341	592,561	983,541	-	-	-	3,061,557
Other expenses	11,258	12,122	9,558	36,934	7,731	-	-	-	77,603
Management and general:									
Operating expenses	21,234	17,001	15,132	17,989	27,719	3,005	13,212	-	115,292
Total Expenses Before Depreciation and Amortization	579,265	498,464	494,031	647,484	1,018,991	3,005	13,212	-	3,254,452
Change In Net Assets Before Depreciation and Amortization	724,496	32,522	55,150	37,261	385,944	85	(1,565)	-	1,233,893
Depreciation	153,353	216,667	227,377	217,901	590,336	-	-	-	1,405,634
Amortization	9,630	17,120	16,961	17,582	39,928	-	-	-	101,221
CHANGE IN UNRESTRICTED NET ASSETS	561,513	(201,265)	(189,188)	(198,222)	(244,320)	85	(1,565)	-	(272,962)
NET ASSETS (DEFICIT), BEGINNING OF THE YEAR	1,990,993	1,579,857	724,960	(893,166)	633,007	395	(36,567)	-	3,999,479
NET ASSETS (DEFICIT), END OF YEAR	\$ 2,552,506	\$ 1,378,592	\$ 535,772	\$ (1,091,388)	\$ 388,687	\$ 480	\$ (38,132)	\$ -	\$ 3,726,517

See accompanying independent auditor's report.