

## **DREAM CHARTER SCHOOL**

**Audited Financial Statements in Accordance  
With Government Auditing Standards**

**June 30, 2012**

# DREAM CHARTER SCHOOL

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## INDEPENDENT AUDITORS' REPORT

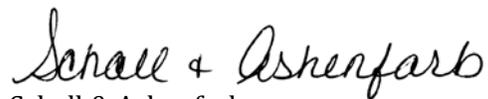
To the Board of Trustees of  
DREAM Charter School

We have audited the accompanying statement of financial position of DREAM Charter School (the "School") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the School's June 30, 2011 financial statements, and, in our report dated October 17, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the School as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2012 on our consideration of DREAM Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
Schall & Ashenfarb  
Certified Public Accountants, LLC

October 29, 2012

**DREAM CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2012**  
(With comparative totals at June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 2c and 2d)	\$178,017	\$363,885
Investments (Notes 2e and 4)	861,166	855,490
Contributions receivable (Note 2b)	200,000	200,000
Government grants receivable (Note 2f)	72,744	67,888
Prepaid expenses	41,665	23,613
Fixed assets (net of accumulated depreciation - Notes 2h and 5)	<u>177,607</u>	<u>163,323</u>
 Total assets	 <u><u>\$1,531,199</u></u>	 <u><u>\$1,674,199</u></u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$42,186	\$45,138
Refundable advances (Note 2f)	25,575	23,408
Due to institutional partner (Note 3)	<u>71,289</u>	<u>42,808</u>
Total liabilities	<u>139,050</u>	<u>111,354</u>
Commitments (Note 9)		
Net assets: (Note 2a)		
Unrestricted	1,132,149	1,362,845
Temporarily restricted (Note 6)	<u>260,000</u>	<u>200,000</u>
Total net assets	<u>1,392,149</u>	<u>1,562,845</u>
 Total liabilities and net assets	 <u><u>\$1,531,199</u></u>	 <u><u>\$1,674,199</u></u>

*The attached notes and auditors' report are an integral part of these financial statements.*

**DREAM CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**  
(With comparative totals for the year ended June 30, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 6/30/12</u>	<u>Total 6/30/11</u>
Public support and revenue:				
Public school district: (Notes 2i and 8)				
Revenue - resident student enrollment	\$3,369,238		\$3,369,238	\$2,673,612
Revenue - students with disabilities	645,544		645,544	601,916
Government grants (Note 2f)	227,672		227,672	151,007
Foundation grants (Note 2b)	19,525	\$260,000	279,525	341,000
Contribution (Note 2b)	74,816		74,816	69,850
Donated facilities (Notes 2j and 7)	313,045		313,045	328,510
Investment income (Note 4)	15,412		15,412	10,397
Other	12,572		12,572	0
Net assets released from restrictions	200,000	(200,000)	0	0
Total public support and revenue	<u>4,877,824</u>	<u>60,000</u>	<u>4,937,824</u>	<u>4,176,292</u>
Expenses:				
Program expenses	4,307,314		4,307,314	3,349,138
Supporting services:				
Management and general	703,155		703,155	583,653
Fundraising	98,051		98,051	96,626
Total supporting services	<u>801,206</u>	<u>0</u>	<u>801,206</u>	<u>680,279</u>
Total expenses	<u>5,108,520</u>	<u>0</u>	<u>5,108,520</u>	<u>4,029,417</u>
Change in net assets	(230,696)	60,000	(170,696)	146,875
Net assets - beginning	<u>1,362,845</u>	<u>200,000</u>	<u>1,562,845</u>	<u>1,415,970</u>
Net assets - ending	<u>\$1,132,149</u>	<u>\$260,000</u>	<u>\$1,392,149</u>	<u>\$1,562,845</u>

*The attached notes and auditors' report are an integral part of these financial statements.*

**DREAM CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(With comparative totals for the year ended June 30, 2011)

	Program Services	Supporting Services			Total Expenses 6/30/12	Total Expenses 6/30/11
		Management and General	Fundraising	Total		
Salaries and payroll taxes	\$3,165,375	\$178,489		\$178,489	\$3,343,864	\$2,394,434
Instructors and tutors	16,672			0	16,672	\$98,905
Classroom supplies	70,443			0	70,443	88,925
Program food and events	14,494			0	14,494	17,252
Other program services	121,760	210		210	121,970	188,806
Contractual services (Note 3)	322,640	386,507	\$98,051	484,558	807,198	524,607
Consulting and professional	92,365	70,519		70,519	162,884	65,632
Telephone and internet	14,256	804		804	15,060	10,816
Communication and outreach	7,028	585		585	7,613	16,234
Professional development	44,416	7,598		7,598	52,014	64,734
Office and administration	49,008	31,868		31,868	80,876	59,756
Insurance	19,073	1,076		1,076	20,149	19,931
Facilities rental				0	0	39,846
Repairs and maintenance		14,933		14,933	14,933	42,681
Dues and publications	950	2,858		2,858	3,808	3,733
Bad debt expense		4,562		4,562	4,562	3,341
<b>Total expenses before depreciation and in-kind services</b>	<b>3,938,480</b>	<b>700,009</b>	<b>98,051</b>	<b>798,060</b>	<b>4,736,540</b>	<b>3,639,633</b>
Donated services and facilities (Note 7)	313,045			0	313,045	328,510
Depreciation	55,789	3,146		3,146	58,935	61,274
<b>Total expenses</b>	<b>\$4,307,314</b>	<b>\$703,155</b>	<b>\$98,051</b>	<b>\$801,206</b>	<b>\$5,108,520</b>	<b>\$4,029,417</b>

*The attached notes and auditors' report are an integral part of these financial statements.*

**DREAM CHARTER SCHOOL**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(With comparative totals for the year ended June 30, 2011)

	<u>6/30/12</u>	<u>6/30/11</u>
Net cash flows from operating activities:		
Change in net assets	(\$170,696)	\$146,875
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	58,935	61,274
(Increase)/decrease in assets:		
Contributions receivable	0	(200,000)
Government grants receivable	(4,856)	(21,012)
Prepaid expenses	(18,052)	19,610
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(2,952)	(3,232)
Refundable advances	2,167	(2,167)
Due from/(to) institutional partner	28,481	(21,258)
Total adjustments	<u>63,723</u>	<u>(166,785)</u>
Net cash used for operating activities	<u>(106,973)</u>	<u>(19,910)</u>
Net cash flows from investment activities:		
Purchase of property and equipment	(73,219)	(91,961)
Purchase of investments	<u>(5,676)</u>	<u>(4,690)</u>
Net cash used for investing activities	<u>(78,895)</u>	<u>(96,651)</u>
Net decrease in cash and cash equivalents	(185,868)	(116,561)
Cash and cash equivalents, beginning	<u>363,885</u>	<u>480,446</u>
Cash and cash equivalents, ending	<u>\$178,017</u>	<u>\$363,885</u>
Interest and income taxes paid	<u>\$0</u>	<u>\$0</u>

*The attached notes and auditors' report are an integral part of these financial statements.*

**DREAM CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Note 1 - Organization**

Effective January 15, 2008, DREAM Charter School (the "School") was granted a provisional charter by the University of the State of New York, Education Department for a term up through and including January 14, 2013. Such provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education Law.

The School's mission is to prepare students for high-performing high schools, colleges and beyond through a rigorous academic program that develops critical thinkers who demonstrate a love of learning, strong character and a commitment to wellness and active citizenship. The School inspires every student to recognize their potential and realize their dreams.

The School currently serves 250 students in grades K-4 and will grow one grade (50 students) each year until it reaches capacity with grades K-8 and a total of 450 students. Unique features of the School include an extended day and extended year, exclusive classrooms taught by co-teaching teams, a high level of family engagement and a Coordinate School Health Program as a fundamental component of the school's educational philosophy.

The School is supported by its institutional partner, Harlem RBI, a 20 year-old youth-development organization located in East Harlem, New York. Harlem RBI brings the expertise of its Board of Directors, Executive Leadership and its Fund Development, Finance and Operations teams to bear on the School's needs. Two members of Harlem RBI's Board of Directors and Harlem RBI's Executive Director serve on the School's Board of Trustees.

The School was organized under the Not-For-Profit Corporation Law of the State of New York and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar NYS statutes.

**Note 2 - Significant Accounting Policies**

a. Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting.

The School's net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.

- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

b. Contributions

Contributions are recorded as revenue upon receipt of cash or at the time a pledge is considered unconditional. Contributions received with specific donor restrictions are recorded in the temporarily restricted class of net assets. All other contributions are recorded as unrestricted. However, when the restrictions from temporarily restricted contributions have been met in the year of donation, they are reported as unrestricted.

Contributions expected to be received within one year are recorded at their net realizable value. Long-term pledges are recorded at fair value, using a risk adjusted discount rate. Conditional contributions are recorded as liabilities and are recognized as income when the conditions have been substantially met.

All contributions receivable at June 30, 2012 are expected to be received in less than one year.

c. Cash and Cash Equivalents

For purposes of financial reporting, cash and cash equivalents include cash held in banks and money market funds other than those held by the investment manager. The School's policy is to maintain a liquid cash reserve above the cash needed for immediate operations (defined as six weeks or 12% of the annual operating budget).

d. Concentration of Credit Risk

Financial instruments which potentially subject the School to concentration of credit risk consist of cash, money market accounts and investments.

The School places its temporary cash, money market and investment accounts with financial institutions that they deem to be credit-worthy, which at times, may exceed federally insured limits. At year-end, the School did not have any uninsured balances.

e. Investments

Investments are recorded at fair value, which is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included in income on the statement of activities.

f. Government Grants

Government grants that have traits more similar to contracts for service are treated as exchange transactions and are recognized as income when earned. The difference between the amount of cash received and recognized on a government grant is reflected as grants receivable/refundable advances.

- g. Allowance for Uncollectible Receivables  
Management deems all receivables to be fully collectable and has not established a bad debt reserve. Write-offs will be recorded as expense in the year they are deemed to be uncollectible.
- h. Capitalization Policies  
Leasehold improvements, equipment and furniture that exceed pre-determined amounts and that have a useful life of greater than one year are recorded at cost or at the fair market value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:  
  
Office equipment – *3 years*  
Furniture and fixtures – *7 years*  
Leasehold improvements – *Life of lease*
- i. Revenues – Public School District  
Program revenues are recognized based on rates established by the School’s funding sources and the amount realizable on the accrual basis in the period during which services are provided. The School is dependent upon grants from the New York City Department of Education (NYCDOE) to carry out its operations.
- j. Donated Services  
Donated services are recognized at fair value if they create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind. See Note 7 for details.
- k. Use of Estimates  
The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.
- l. Functional Allocation of Expenses  
The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.
- m. Comparative Financial Information  
The financial statements include certain prior-year summarized 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. Such information should be read in conjunction with the School’s financial statements for the period ended June 30, 2011, from which the summarized information was derived.

n. Accounting for Uncertainty of Income Taxes

The School has adopted the provisions of FASB ASC 740, *Income Taxes*, which applies to positions taken or expected to be taken in a tax return. Organizations are required to recognize the effects of tax positions if they are more likely than not of being sustained. The School does not believe its financial statements include any uncertain tax positions.

o. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 29, 2012, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

**Note 3 - Due To Institutional Partner**

The School has an institutional partnership agreement with the Harlem RBI (“HRBI”), which is an affiliate by nature of common board members and management. An “Institutional Partnership Agreement” (IPA) serves as the foundation of the governance relationship between the School and HRBI. This contract speaks to key issues such as the exact nature and costs of HRBI’s Executive Leadership and back office services to the School, and the allocation of unrestricted fundraising dollars that HRBI raises for the School. Both the School Board of Trustees and HRBI Board of Directors will have the option of severing the relationship between the two entities with agreed upon notice, though the spirit of the partnership is unending. The IPA will be reviewed and revised by an “Integration & Governance Committee” consisting of both HRBI and the School Board members, and will be renewed on an annual basis.

At June 30, 2012, total contributions received by HRBI on behalf of the School, less amounts due from the School for administrative services, totaled \$71,289. Total fees recorded as expense were \$807,198.

**Note 4 - Investments**

Accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the securities based on market data obtained from sources independent of the School. Unobservable inputs reflect the School’s assumptions about the inputs that market participants would use in pricing the security developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the School has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

At June 30, 2012, all investments were measured using Level 1 inputs as follows:

Cash Equivalents	\$64,293
Government Bonds	<u>796,873</u>
	<u>\$861,166</u>

Investment income during the year ended June 30, 2012 consisted of the following:

Interest	\$18,014
Unrealized loss	<u>(2,602)</u>
Total from operations	<u>\$15,412</u>

**Note 5 - Fixed Assets**

At June 30, 2012, fixed assets consisted of the following:

Computer and equipment	\$153,764
Furniture	143,171
Leasehold improvements	<u>72,655</u>
Total	369,590
Less: accumulated depreciation	<u>(191,983)</u>
Total fixed assets, net	<u>\$177,607</u>

**Note 6 - Temporarily Restricted Net Assets**

The following summarizes the changes in temporarily restricted net assets for the year ended June 30, 2012:

	Balance <u>7/1/11</u>	Restricted <u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>6/30/12</u>
Programs:				
College Trip	\$0	\$60,000	\$0	\$60,000
Extended Day Programming	<u>200,000</u>	<u>200,000</u>	<u>(\$200,000)</u>	<u>200,000</u>
Total	<u>\$200,000</u>	<u>\$260,000</u>	<u>(\$200,000)</u>	<u>\$260,000</u>

**Note 7 - In-Kind Services**

As described in Note 2j, the School received the use of facilities without charge. The estimated value of these facilities at P.S. 38 for June 30, 2012 is \$313,045 and has been charged to program expenses in the financial statements.

**Note 8 - Significant Concentrations**

The School and NYCDOE signed an agreement, which permits the School to operate the charter until January 14, 2013. Approximately 88% of the School's total public support and revenue, excluding in-kind contributions, was realized from NYCDOE.

**Note 9 - Commitments**

Government grants are subject to audit. Refundable advances of \$25,575 reflect a reserve for potential disallowances that could arise from these audits.

**Note 10 - Retirement Plan**

The School has a tax deferred 403(b) retirement plan. All employees may participate by designating a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. No contributions by the School are made to the plan.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of  
DREAM Charter School

We have audited the financial statements of DREAM Charter School (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

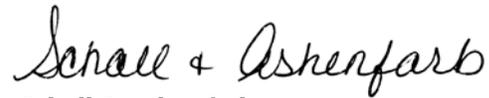
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated October 29, 2012.

This report is intended solely for the information and use of management, the Board of Trustees and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.



Schall & Ashenfarb  
Certified Public Accountants, LLC

October 29, 2012