

# **DREAM CHARTER SCHOOL**

## **Audited Financial Statements**

**June 30, 2010**

# DREAM CHARTER SCHOOL

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## INDEPENDENT AUDITORS' REPORT

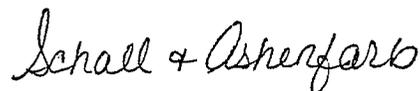
To the Board of Trustees of  
DREAM Charter School

We have audited the accompanying statement of financial position of DREAM Charter School (the "School") as of June 30, 2010, 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, 2009 financial statements, and, in our report dated October 16, 2009, 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, 2010, 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 14, 2010 on our consideration of the 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 14, 2010

**DREAM CHARTER SCHOOL**  
**STATEMENT OF FINANCIAL POSITION**  
**AT JUNE 30, 2010**  
(With comparative totals at June 30, 2009)

	<u>6/30/10</u>	<u>6/30/09</u>
<b>Assets</b>		
Cash and cash equivalents (Notes 2c and 2d)	\$480,446	\$656,535
Investments (Note 2e)	850,800	0
Contributions receivable (Note 2b)	0	75,000
Government grants receivable (Note 2f)	46,876	199,817
Due from institutional partner (Note 3)	0	96,362
Prepaid expenses	43,223	27,735
Fixed assets (net of accumulated depreciation - Notes 2h and 4)	<u>132,636</u>	<u>130,659</u>
 Total assets	 <u><u>\$1,553,981</u></u>	 <u><u>\$1,186,108</u></u>
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$48,370	\$26,147
Refundable advances (Note 2f)	25,575	25,575
Due to institutional partner (Note 3)	<u>64,066</u>	<u>0</u>
Total liabilities	<u>138,011</u>	<u>51,722</u>
Commitments (Note 8)		
Net assets:(Note 2a)		
Unrestricted	1,190,970	936,013
Temporarily restricted (Note 5)	<u>225,000</u>	<u>198,373</u>
Total net assets	<u>1,415,970</u>	<u>1,134,386</u>
 Total liabilities and net assets	 <u><u>\$1,553,981</u></u>	 <u><u>\$1,186,108</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, 2010**

(With comparative totals for the 18 month period from January 1, 2008  
(date of inception) through June 30, 2009)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 6/30/10</u>	<u>Total 6/30/09</u>
Public support and revenue:				
Public school district: (Notes 2i and 7)				
Revenue - resident student enrollment	\$1,814,345		\$1,814,345	\$990,774
Revenue - students with disabilities	450,237		450,237	613,191
Government grants (Note 2f)	235,645		235,645	398,068
Foundation grants (Note 2b)	117,000	\$225,000	342,000	794,500
Contribution (Note 2b)	81,895		81,895	215,697
Donated services (Notes 2j and 6)	14,108		14,108	118,762
Donated facilities (Notes 2j and 6)	152,235		152,235	78,000
Interest income	13,597		13,597	10,589
Other	1,600		1,600	712
Net assets released from restrictions	198,373	(198,373)	0	0
Total public support and revenue	<u>3,079,035</u>	<u>26,627</u>	<u>3,105,662</u>	<u>3,220,293</u>
Expenses:				
Program expenses	2,278,425		2,278,425	1,678,904
Supporting services:				
Management and general	446,676		446,676	314,654
Fundraising	98,977		98,977	92,349
Total supporting services	<u>545,653</u>	<u>0</u>	<u>545,653</u>	<u>407,003</u>
Total expenses	<u>2,824,078</u>	<u>0</u>	<u>2,824,078</u>	<u>2,085,907</u>
Change in net assets	254,957	26,627	281,584	1,134,386
Net assets - beginning	<u>936,013</u>	<u>198,373</u>	<u>1,134,386</u>	<u>0</u>
Net assets - ending	<u><u>\$1,190,970</u></u>	<u><u>\$225,000</u></u>	<u><u>\$1,415,970</u></u>	<u><u>\$1,134,386</u></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, 2010**

(With comparative totals for the 18 month period from January 1, 2008  
(date of inception) through June 30, 2009)

	Program Services	Supporting Services			Total Expenses 6/30/10	Total Expenses 6/30/09
		Management and General	Fundraising	Total		
Salaries and payroll taxes	\$1,517,981	\$111,371		\$111,371	\$1,629,352	\$1,113,880
Classroom supplies	76,647			0	76,647	125,479
Program food and events	135,654			0	135,654	13,296
Other program expenses	30,047			0	30,047	37,182
Contractual services (Note 3)	12,049	295,962	\$83,037	378,999	391,048	280,803
Consulting and professional	241,386	22,214		22,214	263,600	205,651
Telephone and internet	3,835	788		788	4,623	5,624
Communication and outreach	12,981	463		463	13,444	12,728
Office and administration	42,279	4,161	1,832	5,993	48,272	39,338
Insurance	10,225	5,806		5,806	16,031	21,196
Special events				0	0	1,797
Repairs and maintenance	2,277	253		253	2,530	0
Dues and publications	2,212	519		519	2,731	1,921
Bad debt expense		2,232		2,232	2,232	0
<b>Total expenses before depreciation and in-kind services</b>	<b>2,087,573</b>	<b>443,769</b>	<b>84,869</b>	<b>528,638</b>	<b>2,616,211</b>	<b>1,858,895</b>
Donated services and facilities (Note 6)	152,235		14,108	14,108	166,343	196,762
Depreciation	38,617	2,907		2,907	41,524	30,250
<b>Total expenses</b>	<b>\$2,278,425</b>	<b>\$446,676</b>	<b>\$98,977</b>	<b>\$545,653</b>	<b>\$2,824,078</b>	<b>\$2,085,907</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, 2010**

(With comparative totals for the 18 month period from January 1, 2008  
(date of inception) through June 30, 2009)

	<u>6/30/10</u>	<u>6/30/09</u>
Net cash flows from operating activities:		
Change in net assets	\$281,584	\$1,134,386
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	41,524	30,250
(Increase)/decrease in assets:		
Contributions receivable	75,000	(75,000)
Government grants receivable	152,941	(199,817)
Due from institutional partner	96,362	(96,362)
Prepaid expenses	(15,488)	(27,735)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	22,223	26,147
Refundable advances	0	25,575
Due to institutional partner	64,066	0
Total adjustments	<u>436,628</u>	<u>(316,942)</u>
Net cash provided by operating activities	<u>718,212</u>	<u>817,444</u>
Net cash flows from investment activities:		
Purchase of property and equipment	(43,501)	(160,909)
Transfer to establish investment accounts	<u>(850,800)</u>	<u>0</u>
Net cash used for investing activities	<u>(894,301)</u>	<u>(160,909)</u>
Net (decrease)/increase in cash and cash equivalents	(176,089)	656,535
Cash and cash equivalents, beginning	<u>656,535</u>	<u>0</u>
Cash and cash equivalents, ending	<u>\$480,446</u>	<u>\$656,535</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, 2010**

**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 is supported by its institutional partner, Harlem RBI, a 19 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's mission is to educate East Harlem children through a comprehensive K-8 program that builds a community of passionate lifelong learners. The School's students will achieve mastery of all New York State Learning Standards and will be accepted into high performing high schools. The School promotes physical, social, emotional and moral growth in a nurturing environment with high expectations, inspiring every student to recognize their potential and realize their dreams.

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. When the restrictions from temporarily restricted contributions have been met in the year of donation, they are reported as unrestricted.

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 permanent or temporarily restricted class of net assets, depending on the nature of the donor's restriction. All other contributions are recorded 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 based on market conditions using the income approach. Conditional contributions received are recorded as liabilities and are recognized as income when the conditions have been substantially met.

All contributions receivable 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.

d. Concentration of Credit Risk

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

The School places its temporary cash and money market accounts with financial institutions that they deem to be credit-worthy, which at times, may exceed federally insured limits. While at year end the School had material uninsured balances, management feels they have little risk of failure of the financed institutions, and has not experienced any losses of this nature.

e. Investments

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). At June 30, 2010, the balance of \$850,800 consisted of money market funds.

f. Government Grants

Government grants that have traits more similar to contracts for service are treated as exchange transactions and are recorded as income when earned. Grants earned in excess of cash received are recorded as grants receivable and cash received in excess of grants earned are recorded as refundable advances.

g. Allowance for Uncollectible Receivables

Management has not established a reserve for uncollectible receivables because they deem all receivables to be fully collected based on analysis and historical experience. 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 6 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. Accordingly, 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. Accordingly, such information should be read in conjunction with the School's financial statements for the period ended June 30, 2010, from which the summarized information was derived.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 14, 2010, 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 from 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, 2010, total contributions received by HRBI on behalf of the School, less amounts due from the School for administrative services totaled \$64,066. Total fees recorded as expense were \$391,048.

**Note 4 - Fixed Assets**

At June 30, 2010, fixed assets consisted of the following:

Computer and equipment	\$64,612
Furniture	83,107
Leasehold improvements	<u>56,692</u>
Total	204,411
Less: accumulated depreciation	<u>(71,775)</u>
Total fixed assets, net	<u>\$132,636</u>

**Note 5 - Temporarily Restricted Net Assets**

The following summarizes the changes in temporarily restricted net assets for the year ended June 30, 2010:

	Balance <u>7/1/09</u>	Restricted <u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>6/30/10</u>
Programs:				
Extended Day Programming	\$150,000	\$200,000	(\$150,000)	\$200,000
Professional Development and Extended Year Program	23,373	0	(23,373)	0
Coordinated Community Health Program	<u>25,000</u>	<u>25,000</u>	<u>(25,000)</u>	<u>25,000</u>
Total	<u>\$198,373</u>	<u>\$225,000</u>	<u>(\$198,373)</u>	<u>\$225,000</u>

**Note 6 - In-Kind Services**

As described in Note 2i, the School received the use of facilities and management services free of charge. The following outlines how those costs appear on the statement of functional expenses:

	<u>Programs</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>Total</u>
Facilities at P.S. 38	\$152,235	\$0	\$0	\$152,235
Management services by institutional partner	<u>0</u>	<u>14,108</u>	<u>0</u>	<u>14,108</u>
Total	<u>\$152,235</u>	<u>\$14,108</u>	<u>\$0</u>	<u>\$166,343</u>

**Note 7 - Significant Concentrations**

The School and NYCDOE signed an agreement, which permits the School to operate the charter until January 14, 2013. Approximately 75% of the School's total public support and revenue, excluding in-kind contributions, was realized from NYCDOE.

**Note 8 - 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 9 - 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, 2010, and have issued our report thereon dated October 14, 2010. 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

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.

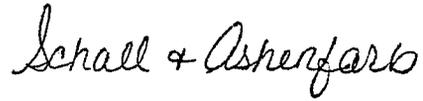
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not 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 14, 2010.

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.

A handwritten signature in cursive script that reads "Schall & Ashenfarb".

Schall & Ashenfarb  
Certified Public Accountants, LLC

October 14, 2010