SCHALL & ASHENFARB Certified Public Accountants LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA

DREAM CHARTER SCHOOL

Audited Financial Statements

June 30, 2011

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DREAM CHARTER SCHOOL

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SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
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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, 2011, 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, 2010 financial statements, and, in our report dated October 14, 2010, 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, 2011, 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 17, 2011 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

Schall & Ashenfarb
Certified Public Accountants, LLC

October 17, 2011

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DREAM CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2011
(With comparative totals for June 30, 2010)

	6/30/11	6/30/10
Assets		
Cash and cash equivalents (Notes 2c and 2d)	$363,885	$480,446
Investments (Notes 2e and 4)	855,490	850,800
Contributions receivable (Note 2b)	200,000	0
Government grants receivable (Note 2f)	67,888	46,876
Prepaid expenses	23,613	43,223
Fixed assets (net of accumulated depreciation - Notes 2h and 5)	163,323	132,636
Total assets	$1,674,199	$1,553,981
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$45,138	$48,370
Refundable advances (Note 2f)	23,408	25,575
Due to institutional partner (Note 3)	42,808	64,066
Total liabilities	111,354	138,011
Commitments (Note 8)		
Net assets: (Note 2a)		
Unrestricted	1,362,845	1,190,970
Temporarily restricted (Note 6)	200,000	225,000
Total net assets	1,562,845	1,415,970
Total liabilities and net assets	$1,674,199	$1,553,981

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, 2011
(With comparative totals for the year ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Total 6/30/11	Total 6/30/10
Public support and revenue:				
Public school district: (Notes 2i and 8)				
Revenue - resident student enrollment	$2,673,612		$2,673,612	$1,814,345
Revenue - students with disabilities	601,916		601,916	450,237
Government grants (Note 2f)	151,007		151,007	235,645
Foundation grants (Note 2b)	141,000	$200,000	341,000	342,000
Contribution (Note 2b)	69,850		69,850	81,895
Donated services (Note 2j)			0	14,108
Donated facilities (Notes 2j and 7)	328,510		328,510	152,235
Interest income	10,397		10,397	13,597
Other	0		0	1,600
Net assets released from restrictions	225,000	(225,000)	0	0
Total public support and revenue	4,201,292	(25,000)	4,176,292	3,105,662
Expenses:				
Program expenses	3,349,138		3,349,138	2,278,425
Supporting services:				
Management and general	583,653		583,653	446,676
Fundraising	96,626		96,626	98,977
Total supporting services	680,279	0	680,279	545,653
Total expenses	4,029,417	0	4,029,417	2,824,078
Change in net assets	171,875	(25,000)	146,875	281,584
Net assets - beginning	1,190,970	225,000	1,415,970	1,134,386
Net assets - ending	$1,362,845	$200,000	$1,562,845	$1,415,970

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, 2011
(With comparative totals for the year ended June 30, 2010)

		Supporting Services				
	Program Services	Management and General	Fundraising	Total	Total Expenses 6/30/11	Total Expenses 6/30/10
Salaries and payroll taxes	$2,259,169	$135,265		$135,265	$2,394,434	$1,629,352
Instructors and tutors	98,905			0	98,905	$12,913
Classroom supplies	86,697	2,228		2,228	88,925	76,647
Program food and events	17,252			0	17,252	3,924
Camp fees	130,694	256		256	130,950	131,730
Other program expenses	57,075	781		781	57,856	30,047
Contractual services (Note 3)	133,178	295,588	$95,841	391,429	524,607	391,048
Consulting and professional	12,913	52,719		52,719	65,632	141,780
Telephone and internet	6,845	3,971		3,971	10,816	4,623
Communication and outreach	13,664	1,785	785	2,570	16,234	6,833
Professional development	59,130	5,604		5,604	64,734	115,518
Office and administration	10,437	49,319		49,319	59,756	48,272
Insurance	7,484	12,447		12,447	19,931	16,031
Facilities rental	39,846			0	39,846	0
Repairs and maintenance	40,676	2,005		2,005	42,681	2,530
Dues and publications	114	3,619		3,619	3,733	2,731
Bad debt expense	3,341			0	3,341	2,232
Total expenses before depreciation and in-kind services	2,977,420	565,587	96,626	662,213	3,639,633	2,616,211
Donated services and facilities (Note 7)	328,510			0	328,510	166,343
Depreciation	43,208	18,066		18,066	61,274	41,524
Total expenses	$3,349,138	$583,653	$96,626	$680,279	$4,029,417	$2,824,078

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, 2011
(With comparative totals for the year ended June 30, 2010)

	6/30/11	6/30/10
Net cash flows from operating activities:		
Change in net assets	$146,875	$281,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	61,274	41,524
(Increase)/decrease in assets:		
Contributions receivable	(200,000)	75,000
Government grants receivable	(21,012)	152,941
Prepaid expenses	19,610	(15,488)
Increase/(decrease) in liabilities:		
Accounts payable and accrued expenses	(3,232)	22,223
Refundable advances	(2,167)	0
Due (to)/from institutional partner	(21,258)	160,428
Total adjustments	(166,785)	436,628
Net cash (used for)/provided by operating activities	(19,910)	718,212
Net cash flows from investment activities:		
Purchase of property and equipment	(91,961)	(43,501)
Transfer to establish investment accounts	0	(850,800)
Purchase of investments	(4,690)	0
Net cash used for investing activities	(96,651)	(894,301)
Net decrease in cash and cash equivalents	(116,561)	(176,089)
Cash and cash equivalents, beginning	480,446	656,535
Cash and cash equivalents, ending	$363,885	$480,446
Interest and income taxes paid	$0	$0

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

DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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. 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, using a risk adjusted discount rate. Conditional contributions received are recorded as liabilities and are recognized as income when the conditions have been substantially met.

All contributions receivable at June 30, 2011 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, 2011, the balance of $855,490 consisted of government bonds of $799,475 and cash equivalents of $56,015.

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 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, 2010, 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 17, 2011, 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 - Institutional Partnership

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's 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, 2011, total contributions received by HRBI on behalf of the School, less amounts due from the School for administrative services totaled $42,808. Total fees recorded as expense were $524,607.

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 December 31, 2011, investments consisted of the following:

	Total	Level 1	Level 2
Cash Equivalents	$54,848	$54,848	$0
Government Bonds	800,642	0	800,642
	$855,490	$54,848	$800,642

Note 5 - Fixed Assets

At June 30, 2011, fixed assets consisted of the following:

Computer and equipment	$99,413
Furniture	124,304
Leasehold improvements	72,655
Total	296,372
Less: accumulated depreciation	(133,049)
Total fixed assets, net	$163,323

Note 6 - Temporarily Restricted Net Assets

The following summarizes the changes in temporarily restricted net assets for the year ended June 30, 2011:

	Balance 7/1/10	Restricted Contributions	Released from Restrictions	Balance 6/30/11
Programs:				
Extended Day Programming	$200,000	$200,000	($200,000)	$200,000
Coordinated Community Health Program	25,000	0	(25,000)	0
Total	$225,000	$200,000	($225,000)	$200,000

Note 7 - In-Kind Services

As described in Note 2j, the School received the use of facilities. The estimated value of in-kind facilities at P.S. 38 for June 30, 2011 is $328,510 and has been included in the program category of the statement of functional expenses.

Note 8 - Significant Concentrations

The School and NYCDOE signed an agreement, which permits the School to operate the charter until January 14, 2013. Approximately 85% 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 $23,408 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.

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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, 2011, and have issued our report thereon dated October 17, 2011. 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.

<u>Internal Control over Financial Reporting</u>
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.

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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 17, 2011.

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

Schall & Ashenfarb
Certified Public Accountants, LLC

October 17, 2011

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA

SAS # 115 Management Letter

To the Audit Committee of
DREAM Charter School

In planning and performing our audit of the financial statements of DREAM Charter School (the "School") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we have provided follow-up responses to comments made as part of the prior year's audit.

I – Other Matters - New Comments

<u>Independent Contractors vs. Employees</u>
In recent years, the IRS and NYS Department of Labor (DOL) have been scrutinizing payments made to independent contractors to ensure that the payments aren't being made to workers that meet the definition of an "employee" for the sole purpose of not paying payroll taxes and related benefits. We noted that during the past year, the School made payments for tutors and instructors expense increased significantly and that these were considered payments to independent contractors.

The IRS has issued a twenty question test that tries to determine who has control of the work situation and whether the worker is holding themselves out to the public or not. We recommend periodically reviewing the factors contained in the IRS publication. For those that exhibit many of the traits of a true independent contractor, a contract should be on file to document this decision

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process. For those individuals who exhibit traits of an employee, we recommend adding them to payroll and paying all applicable taxes.

II – Other Matters – Follow-up to prior comments

Salary Allocation for Government Grants

Last year we informed the School that although total federal funding does not exceed the annual $500,000 threshold to require a more extensive A-133 audit, that does not relieve them from following federal requirements when they receive federal grants. We therefore recommended that the School establish a timesheet system that meets federal guidelines.

***Follow-up for June 30, 2011**: The School has still not fully implemented a timesheet system that would be in compliance with federal guidelines.*

Monitoring of Government Grants

In prior communications, we suggested that the finance department maintain a schedule for each government grant that lists the amount of the vouchers submitted compared to the actual cash receipts. Such a schedule would help determine that the government grant receivable, income and total expenses allocated within the general ledger were accurate and up-to-date.

***Follow-up for June 30, 2011:** These schedules were not accurately updated each month or at year-end. As a result audit adjustments were required to correct the books. While these adjustments were not material in dollar level, the need for adjustments could be avoided if the finance department accurately maintains the schedules each month and reviews them for accuracy and compares the amounts to the general ledger.*

This communication is intended solely for the information and use of management, the board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 17, 2011

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA

SAS #114 – Communication With Those Charged with Governance

To the Audit Committee of
DREAM Charter School

We have audited the financial statements of DREAM Charter School (the "School") for the year ended June 30, 2011 and have issued our report thereon dated October 17, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards
As stated in our engagement letter dated May 19, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Audit
We performed our audit according to the plan previously communicated to you in our engagement letter.

Significant Accounting Policies
Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements.

We noted no transactions entered into by the School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates used in preparing the financial statements were as follows:

- allocation of expenses into program, management and fundraising categories
- collectability of receivables from government agencies

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- useful lives and methods for the depreciation of fixed assets
- valuation of in-kind rent

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no adjustments that we considered to be significant. We did however propose certain other adjustments.

Management agreed with all proposed adjustments and has recorded them as part of the audited financial statements. There were no un-booked adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Industry Updates

The following represent new trends in the tax exempt area:

Accounting for leases

The US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have initiated a joint project to develop a new approach to lease accounting that would ensure that assets and liabilities arising under leases are recognized in the statement of financial position. To meet that objective, the FASB and the IASB have jointly developed a draft standard on leases and, hence, are proposing amendments to the *FASB Accounting Standards Codification* and an International Financial Reporting Standard (IFRS). The boards developed the proposals after considering responses to their discussion paper, *Leases: Preliminary Views*, which was published in March 2009.

If confirmed, this exposure draft proposes that lessees should apply a right-of-use model in accounting for most leases (including leases of right-of-use assets in a sublease). This means that the financial statements will have a substantial impact even in situations where an organization has a simple lease of office space that is greater than 12 months.

The impact to the financial statements will be that the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) **and** a liability to make lease payments. The amount used will be based on the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.

Due to the controversial nature of this new standard, the FASB is currently reviewing user comments and could soften the instances where this new guidance will be required to be applied. We will keep you informed of any new developments as they occur, including the effective date and transition guidance.

***Update on* Uniform Prudent Management of Institutional Funds Act ("the Act")**
On September 17, 2010, Governor Patterson signed into law, a New York specific version of the Uniform Prudent Management of Institutional Funds Act. The new legislation switches from a view of preserving "historic dollar value" to one that focuses on "total return". Some of the more significant provisions of the legislation are:

1) The elimination of the requirement to maintain the original dollar value of endowment gifts.
2) The "Act" specifies certain factors that must be considered before spending decisions can be made and outlines stringent documentation requirements.
3) There is a rebuttable presumption of imprudence if a spending rate exceeds 7% of the market value of the endowment fund.
4) A not-for-profit organization must adopt a written policy setting forth guidelines on investments and delegation of management and investment functions.

***Increased scrutiny by* IRS**
The Internal Revenue Service (IRS) released a new checklist to be used by all IRS agents during examinations of exempt organizations to collect data on their governance practices and internal controls. Since 2008, the IRS has been hiring new employees in its audit division and audits of organizations in the tax exempt sector have increased by approximately 30%.

One of the focuses seems to be whether organizations are trying to avoid social security taxes and other benefits by classifying workers as independent contractors instead of employees. Other areas of scrutiny are loans to officers, trustees, key employees and other related parties and whether tax exempt organization are following the "best practices" in the industry related to their fiduciary and oversight/monitoring procedures.

Policies that tax exempt organizations of all sizes should adopt are:

- Conflicts of interest policies with annual declarations
- Whistleblower policies
- Documentation of deliberation of and review of comparable studies on executive salaries
- Written documentation and destruction polices
- Review of form 990 by full governing body
- Contemporaneously documenting meetings held by the governing body and each committee with authority to act on their behalf

In addition, the IRS released its most recent twelve month priority guidance plan, which contains several projects it plans on focusing on in the tax exempt area. Among those projects is to issue final regulations on implementing the public support test which changed when the newly revised form 990 was issued. We will keep you informed about any new regulations that are issued.

***Impact of* American Recovery and Reinvestment Act (ARRA)**

In February 2009, the American Recovery and Reinvestment Act was passed that appropriated approximately $300 billion of new spending. This spending came with a mantra of **"accountability and transparency"**. This means the scrutiny of these funds has increased significantly. Not-for-profit organizations that receive direct ARRA, or pass-through funds from their State and City grants containing ARRA, will most likely need to have compliance with federal regulations, laws and the grant agreements tested as part of their audit in accordance with OMB Circular A-133. Because the compliance requirements may be extensive, we urge all of our clients to contact their funders to determine the extent of these funds so they can understand their obligations better and can implement processes to ensure compliance.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board members that, in our professional judgment may impair our independence.

This information is intended solely for the use of the Board of Directors, and management of DREAM Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 17, 2011

EXHIBIT 1

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA

May 19, 2011

Mr. Rich Berlin
Harlem RBI Dream Charter School
333 East 100th Street
New York, NY 10029

Dear Mr. Berlin:

We are pleased to confirm our understanding of the services we are to provide for Harlem RBI Dream Charter School for the year ended June 30, 2011.

We will audit the statement of financial position of Harlem RBI Dream Charter School as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended.

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit will be conducted in accordance with U.S. generally accepted auditing standards and will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization.

350 Fifth Avenue, Suite 5610
New York, New York 10118
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EXHIBIT 1

Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements, errors, fraud, or other illegal acts may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material errors and any fraudulent reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to you and those charged with governance internal control related matters that are required to be communicated under professional standards.

You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with U.S. generally accepted accounting principles. You are also responsible for management decisions and functions; for designating a management-level individual with suitable skill, knowledge, or experience to oversee the tax services and any other nonattest services we provide; and for evaluating the adequacy and results of those services and accepting responsibility for them.

You are responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material affect on the financial statements. You are responsible for informing us of your knowledge of any allegations or fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring the Organization complies with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, or violations of contracts or grant agreements that we may report.

We understand that your employees will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing. Certain financial institutions may charge us for this and the cost will be passed on to you. We will send a template in Word format for use with confirmation requests.

EXHIBIT 1

As part of our engagement, we will also prepare the federal and state information returns (Form 990 and CHAR 500). In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than $100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

Our fee will be $16,000. At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and SAS #114 communications with those charged with governance. Upon request, we will also provide up to 10 copies of the final report without charge. Any additional copies will cost $5 per report. If applicable, we will charge you other out of pocket costs such as postage for confirmations, fees incurred for certain electronic bank confirmations and setting up conference calls through our phone center, etc. A payment is required upon the signing of this letter in the amount of $3,500. If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to be of service to you and believe this letter accurately *summarizes* the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

RESPONSE:
This letter correctly sets forth the understanding of Harlem RBI Dream Charter School.

Officer signature ____________________

Title EX. DIR

Date 8/23/11

EXHIBIT 2

DREAM
CHARTER SCHOOL

232 East 103rd Street, New York, NY 10029
TEL 212 722 0232 FAX 212 348 5979
info@dreamschoolnyc.org
WWW.DREAMSCHOOLNYC.ORG

October 17, 2011

Schall & Ashenfarb, CPA's, LLC
350 Fifth Avenue, Suite 5610
New York, NY 10118

We are providing this letter in connection with your audit of the statement of financial position of DREAM Charter School as of June 30, 2011 and the related statements of activities, functional expenses and cash flows for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of DREAM Charter School in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all assets and liabilities under the organization's control. There are no bank accounts which exist that are not reflected in the books.

2. We have made available to you all:

    a) Financial records and related data.

    b) Minutes of the meetings of Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. There have been no uncorrected financial statement misstatements that are material, both individually and in the aggregate, to the financial statements taken as a whole. There are no un-booked adjustments.

EXHIBIT 2

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:

    a) Management

    b) Employees who have significant roles in internal control, or

    c) Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.

9. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.

10. The following, if any, have been properly recorded or disclosed in the financial statements:

    a) Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b) Guarantees, whether written or oral, under which the Organization is contingently liable.

11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that near term means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the organization vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Organization; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.

13. DREAM Charter School is an exempt organization under Section 501(c) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

14. There are no:

EXHIBIT 2

a) Violations or possible violations of laws and regulations and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

c) Agreements to repurchase assets previously sold.

d) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

e) Designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.

15. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged except as made known to you and disclosed in the notes to the financial statements.

16. We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.

17. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumption underlying those estimates, and we believe the estimates are reasonable in the circumstances. This includes estimates for the statement of functional expenses.

18. We have included in the financial statements, all assets and liabilities under our control.

No events have occurred subsequent to the statement of financial position date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Rich Berlin
Executive Director

Melissa Fenton
CFO

Richard Souto
Chief Operating Officer