

Dream Charter School



**Financial Statements
(Together with Independent Auditors' Report)
and
Report Required by *Government Auditing Standards*
Years Ended June 30, 2019 and 2018**

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

DREAM CHARTER SCHOOL
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
and
Report Required by *Government Auditing Standards*
YEARS ENDED JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Dream Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Dream Charter School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities" and ASU 2016-18, "Statement of Cash Flows". Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Marks Paneth LLP

New York, NY
October 31, 2019

**DREAM CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and cash equivalents (Notes 2C and 12B)	\$ 2,194,111	\$ 1,399,917
Restricted cash (Note 4)	75,000	75,000
Investments (Notes 2D, 2E and 5)	-	394,408
Government grants receivable (Note 2H)	366,050	408,052
Contributions receivable, net (Notes 2H and 6)	1,347,679	1,000
Prepaid expenses and other assets	171,626	103,324
Property and equipment, net (Notes 2I and 7)	22,524	33,298
TOTAL ASSETS	\$ 4,176,990	\$ 2,414,999
LIABILITIES		
Accounts payable and accrued expenses	\$ 168,597	\$ 157,634
Due to institutional partner (Note 8)	381,975	43,691
Deferred rent (Notes 2L and 8)	582,750	467,250
TOTAL LIABILITIES	1,133,322	668,575
COMMITMENTS AND CONTINGENCIES (Notes 8, 9 and 10)		
NET ASSETS (Note 2B)		
Without donor restrictions	1,956,418	1,695,424
With donor restrictions (Note 11)	1,087,250	51,000
TOTAL NET ASSETS	3,043,668	1,746,424
TOTAL LIABILITIES AND NET ASSETS	\$ 4,176,990	\$ 2,414,999

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

**DREAM CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	For the Year Ended June 30, 2019			For the Year Ended June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total 2019	Without Donor Restrictions	With Donor Restrictions	Total 2018
PUBLIC SUPPORT AND REVENUE:						
Public school district: (Notes 2G and 12A)						
Tuition - general enrollment	\$ 10,708,746	\$ -	\$ 10,708,746	\$ 8,632,938	\$ -	\$ 8,632,938
Tuition - students with disabilities	2,825,943	-	2,825,943	2,336,172	-	2,336,172
Subtotal public school district revenue	13,534,689	-	13,534,689	10,969,110	-	10,969,110
Government grants (Note 2G)	2,066,673	-	2,066,673	1,592,243	-	1,592,243
Contributions (Note 2F)	1,215,471	1,456,000	2,671,471	999,009	201,000	1,200,009
Donated services and facilities (Note 8)	1,744,650	-	1,744,650	1,628,340	-	1,628,340
Forgiveness of amounts due to institutional partner (Note 8)	-	-	-	796,211	-	796,211
Interest and investment income (Note 5)	6,548	-	6,548	4,568	-	4,568
Other	11,428	-	11,428	7,480	-	7,480
Net assets released from restrictions (Note 11)	419,750	(419,750)	-	240,000	(240,000)	-
TOTAL PUBLIC SUPPORT AND REVENUE	18,999,209	1,036,250	20,035,459	16,236,961	(39,000)	16,197,961
EXPENSES (Note 2J):						
Program services:						
General education	10,768,273	-	10,768,273	9,412,351	-	9,412,351
Special education	4,710,381	-	4,710,381	4,548,323	-	4,548,323
Total program services	15,478,654	-	15,478,654	13,960,674	-	13,960,674
Supporting services:						
Management and general	2,962,286	-	2,962,286	1,892,015	-	1,892,015
Fundraising	297,275	-	297,275	188,461	-	188,461
Total supporting services	3,259,561	-	3,259,561	2,080,476	-	2,080,476
TOTAL EXPENSES	18,738,215	-	18,738,215	16,041,150	-	16,041,150
CHANGE IN NET ASSETS	260,994	1,036,250	1,297,244	195,811	(39,000)	156,811
Net Assets - Beginning of Year	1,695,424	51,000	1,746,424	1,499,613	90,000	1,589,613
NET ASSETS - END OF YEAR	\$ 1,956,418	\$ 1,087,250	\$ 3,043,668	\$ 1,695,424	\$ 51,000	\$ 1,746,424

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

**DREAM CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	For the Year Ended June 30, 2019							
	Program Services			Supporting Services				
	General Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2019	Total 2018
Salaries and wages	\$ 5,341,922	\$ 2,432,734	\$ 7,774,656	\$ 886,540	\$ -	\$ 886,540	\$ 8,661,196	\$ 7,409,650
Fringe benefits and payroll taxes (Note 13)	1,106,698	495,707	1,602,405	184,449	-	184,449	1,786,854	1,499,382
Total Salaries and Related Costs	6,448,620	2,928,441	9,377,061	1,070,989	-	1,070,989	10,448,050	8,909,032
Instructors and tutors	38,684	15,800	54,484	-	-	-	54,484	37,636
Classroom supplies	149,764	61,172	210,936	-	-	-	210,936	155,977
Program food and events	41,067	16,774	57,841	-	-	-	57,841	39,112
Other student expenses	251,511	102,732	354,243	-	-	-	354,243	347,547
Contractual services (Note 8)	772,922	315,701	1,088,623	1,684,557	297,275	1,981,832	3,070,455	2,638,374
Consulting and professional	461,136	189,165	650,301	32,514	-	32,514	682,815	608,452
Telephone and internet	2,443	998	3,441	-	-	-	3,441	6,020
Communication and outreach	-	-	-	45,867	-	45,867	45,867	4,112
Professional development	126,328	57,052	183,380	20,376	-	20,376	203,756	235,949
Office and administration	199,131	89,931	289,062	32,117	-	32,117	321,179	302,195
Insurance	51,117	20,878	71,995	10,009	-	10,009	82,004	68,662
Repairs and maintenance	43,887	18,716	62,603	3,334	-	3,334	65,937	56,409
Dues and publications	37,776	17,060	54,836	6,093	-	6,093	60,929	49,127
Donated facilities (Note 8)	1,238,701	505,949	1,744,650	-	-	-	1,744,650	1,628,340
Depreciation (Note 7)	6,681	3,017	9,698	1,076	-	1,076	10,774	26,735
Occupancy (Note 8)	898,505	366,995	1,265,500	-	-	-	1,265,500	923,206
Miscellaneous	-	-	-	55,354	-	55,354	55,354	4,265
TOTAL EXPENSES	\$ 10,768,273	\$ 4,710,381	\$ 15,478,654	\$ 2,962,286	\$ 297,275	\$ 3,259,561	\$ 18,738,215	\$ 16,041,150

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

**DREAM CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total 2018</u>
	<u>General Education</u>	<u>Special Education</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries and wages	\$ 4,365,022	\$ 2,456,420	\$ 6,821,442	\$ 588,208	\$ -	\$ 588,208	\$ 7,409,650
Fringe benefits and payroll taxes (Note 13)	<u>885,818</u>	<u>479,417</u>	<u>1,365,235</u>	<u>134,147</u>	<u>-</u>	<u>134,147</u>	<u>1,499,382</u>
Total Salaries and Related Costs	5,250,840	2,935,837	8,186,677	722,355	-	722,355	8,909,032
Instructors and tutors	27,474	10,162	37,636	-	-	-	37,636
Classroom supplies	113,864	42,113	155,977	-	-	-	155,977
Program food and events	28,552	10,560	39,112	-	-	-	39,112
Other student expenses	253,711	93,836	347,547	-	-	-	347,547
Contractual services (Note 8)	1,008,835	373,130	1,381,965	1,067,948	188,461	1,256,409	2,638,374
Consulting and professional	416,071	156,531	572,602	35,850	-	35,850	608,452
Telephone and internet	4,395	1,625	6,020	-	-	-	6,020
Communication and outreach	-	-	-	4,112	-	4,112	4,112
Professional development	139,210	77,863	217,073	18,876	-	18,876	235,949
Office and administration	178,294	99,725	278,019	24,176	-	24,176	302,195
Insurance	45,076	16,671	61,747	6,915	-	6,915	68,662
Repairs and maintenance	38,642	16,317	54,959	1,450	-	1,450	56,409
Dues and publications	28,985	16,212	45,197	3,930	-	3,930	49,127
Donated facilities (Note 8)	1,188,688	439,652	1,628,340	-	-	-	1,628,340
Depreciation (Note 7)	15,774	8,823	24,597	2,138	-	2,138	26,735
Occupancy (Note 8)	673,940	249,266	923,206	-	-	-	923,206
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,265</u>	<u>-</u>	<u>4,265</u>	<u>4,265</u>
TOTAL EXPENSES	<u>\$ 9,412,351</u>	<u>\$ 4,548,323</u>	<u>\$ 13,960,674</u>	<u>\$ 1,892,015</u>	<u>\$ 188,461</u>	<u>\$ 2,080,476</u>	<u>\$ 16,041,150</u>

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

**DREAM CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,297,244	\$ 156,811
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,774	26,735
Forgiveness of amounts due to institutional partner	-	(796,211)
Realized and unrealized (gain) loss on investments	(3,782)	1,684
	1,304,236	(610,981)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Contributions receivable	(1,346,679)	240,347
Government grants receivable	42,002	(2,903)
Prepaid expenses and other assets	(68,302)	79,745
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,963	45,511
Due to/from institutional partner	338,284	533,139
Deferred rent	115,500	325,500
Net Cash Provided by Operating Activities	396,004	610,358
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(23,125)
Proceeds from sale of investments	398,190	-
Net Cash Provided by (Used In) Investing Activities	398,190	(23,125)
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	794,194	587,233
Cash and cash equivalents and restricted cash - beginning of year	1,474,917	887,684
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	\$ 2,269,111	\$ 1,474,917
The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position:		
Cash and cash equivalents	\$ 2,194,111	\$ 1,399,917
Restricted cash	75,000	75,000
	\$ 2,269,111	\$ 1,474,917

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

DREAM Charter School (the “School”) is a charter school operating in New York City. 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 all students to recognize their potential and realize their dreams. The School hopes to achieve these overarching goals through its pioneering, experiential-based educational program. This educational program is based on four foundations: (1) an innovative curriculum emphasizing integration across subject areas and learning through experimentation; (2) an extended day and year model, to maximize instructional hours; (3) a co-teaching model that reduces the teacher-to-student ratio and integrates special needs students into the general population and (4) active family engagement as a cornerstone of the school's overall culture and philosophy. This program is designed to set high standards for achievement and prepare students for high-performing high schools and colleges.

The School opened in September 2008 with 50 kindergarteners and 50 first graders. It currently serves 720 youth in grades K-9th grade. Distinguishing features of the School include an inclusion method of co-teaching teams within each classroom and a Coordinated School Health Program as a fundamental component of the overall curriculum, culture and educational philosophy of the School. The ultimate goal of the School is to create a successful community-based education program for the youth of East Harlem.

The School is supported by its institutional partner, Harlem RBI d/b/a DREAM (“DREAM”), a youth-development organization located in East Harlem, New York. DREAM brings the expertise of its Board of Directors, executive leadership and its development, finance and operations teams to bear on the School's needs. One member of DREAM's Board of Directors and DREAM's Executive Director serve on the School's Board of Trustees.

Effective January 15, 2013, the School was granted their renewed charter by the University of the State of New York, Education Department.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting*** – The School prepares its financial statements using the accrual basis of accounting. The School adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).

B. ***Basis of Presentation*** – The School reports information regarding its financial position and activities in two classes of net assets:

Without donor restrictions – Net assets that can be spent at the discretion of the School and have no associated donor-imposed stipulations.

With donor restrictions – Net assets that are restricted by the donor for a specific time period or purpose. The School did not have any net assets with donor restrictions to be held in perpetuity as of June 30, 2019 and 2018.

C. ***Cash and Cash Equivalents*** – Cash equivalents include all highly liquid instruments purchased with maturities of 90 days or less.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. **Investments** – Investments are stated at fair value. Investment income is recorded as revenue in the period earned.
- E. **Fair Value Measurements** – Fair value measurements are the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.
- F. **Contributions** – Contributions received, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received. Conditional promises to give are recognized when they become unconditional, that is, when the conditions are substantially met. All contributions receivable are expected to be collected within one year.
- G. **Government Support** – State and local per pupil revenue resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which expenditures have not been incurred are reflected as refundable advances in the accompanying statements of financial position.

- H. **Grants and Contributions Receivable** – Grants and contributions receivable are stated at the amount management expects to collect from outstanding balances. The School may provide an allowance for doubtful accounts for receivables. This estimate is based on management's assessment of the aged basis of its government funding sources, current economic conditions and creditworthiness of its donors and grantors. The School determined that no allowance for doubtful accounts was necessary as of June 30, 2019 and 2018.
- I. **Property and Equipment** – The School capitalizes property and equipment having a cost of \$1,000 or more and a useful life of at least one year. Depreciation is recognized using the straight-line method over the estimated useful lives of the respective assets.
- J. **Functional Allocation of Expenses** – The School allocates expenses on a functional basis among its programs and supporting services. Expenses that can be identified as belonging to a specific program and/or support service are allocated directly according to their natural expense classification. Salaries and fringe benefits and payroll taxes are allocated based on estimates of time and effort. Other expenses are directly allocated.
- K. **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. For the years ended June 30, 2019 and 2018, the School received donated use of services and facilities amounting to \$1,744,650 and \$1,628,340, respectively, which is recorded as both revenue and expense in the accompanying financial statements.
- L. **Deferred Rent** – As further described in Note 8, the School has a lease agreement for the rental of space for a high school. Under the terms of the lease agreement, the lessor has provided free rent periods. In accordance with U.S. GAAP, the School recorded an adjustment to rent expense to reflect the difference between the rent paid and the average rent to be paid over the terms of the lease. This straight-lining of rent expense resulted in an increase in occupancy expenses of \$115,500 and \$325,500 for the years ended June 30, 2019 and 2018, respectively. This adjustment is reflected as deferred rent in the accompanying statements of financial position.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- M. **Use of Estimates** – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.
- N. **Recently Enacted Accounting Standards** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-14, “Not-for-Profit Entities” and ASU 2016-18, “Statement of Cash Flows” were adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure of liquid resources and expense allocation. ASU 2016-18 requires that restricted cash be included with cash and cash equivalents on the accompanying statements of cash flows. These changes had no impact on the changes in net assets for the year ended June 30, 2019. Due to these changes, the School has reclassified prior periods and fully comparative financial statements are presented. Net assets as of June 30, 2018 were reclassified to conform to the new presentation.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES TO MEET GENERAL EXPENDITURES

Financial assets as of June 30, 2019 available for general expenditure, within one year of the statement of financial position date, without donor or other restrictions limiting their use, were as follows:

Cash and cash equivalents	\$	2,194,111
Restricted cash		75,000
Government grants receivable		366,050
Contributions receivable, net		<u>1,347,679</u>
Total financial assets		3,982,840
Less: net assets with donor restrictions		(1,087,250)
Less: restricted cash		<u>(75,000)</u>
		<u>\$ 2,820,590</u>

The School’s management monitors levels of available financial assets to anticipate cash requirements for general expenditures as obligations becomes due. As part of the Schools’s liquidity management plan, the School invests cash in excess of daily requirements in short-term money market accounts.

NOTE 4 – RESTRICTED CASH

The New York City Department of Education (the “NYCDOE”) requires the School to maintain funds in a separate cash account to have funds available to ensure an orderly liquidation, dissolution or transition process if the School’s charter were to be terminated or the School was closed for other reasons. Restricted cash amounted to \$75,000 as of June 30, 2019 and 2018, respectively.

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
United States treasury notes	<u>\$ -</u>	<u>\$ 394,408</u>

Investments are subject to market volatility that could substantially change their carrying values in the near term.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 5 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investment income consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Interest	\$ 2,766	\$ 6,252
Realized/unrealized gain (loss) on investments	<u>3,782</u>	<u>(1,684)</u>
	<u>\$ 6,548</u>	<u>\$ 4,568</u>

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models or similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining fair value, the School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in United States treasury notes are valued using market prices in active markets (Level 1).

For the year ended June 30, 2018, assets were classified in the fair value hierarchy as follows:

	<u>Level 1</u>	<u>Total</u>
United States treasury notes	<u>\$ 394,408</u>	<u>\$ 394,408</u>

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Due within 1 year	\$ 691,000	\$ 1,000
Due within 1 to 5 years	<u>681,500</u>	<u>-</u>
	1,372,500	1,000
Present value discount at 2.00%	<u>(24,821)</u>	<u>-</u>
	<u>\$ 1,347,679</u>	<u>\$ 1,000</u>

Approximately 98% of contributions receivable as of June 30, 2019 are from two donors.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	2019	2018	<u>Estimated Useful Lives</u>
Equipment and computers	\$ 373,660	\$ 373,660	3 years
Furniture and fixtures	200,987	200,987	7 years
	574,647	574,647	
Less: accumulated depreciation	(552,123)	(541,349)	
Total	\$ 22,524	\$ 33,298	

Depreciation expense amounted to \$10,774 and \$26,735 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 – RELATED-PARTY TRANSACTIONS

The School has an Institutional Partnership Agreement (the “Agreement”) with DREAM, which has common management. The Agreement serves as the foundation of the governance relationship between the School and DREAM and describes the exact nature and costs of DREAM’s executive management and back office services to the School. Both the School’s Board of Trustees and DREAM’s Board of Directors have the option of severing the relationship between the two entities with agreed upon notice, though the spirit of the partnership is unending. The Agreement is renewed annually by the Board of each entity. During the years ended June 30, 2019 and 2018, services provided and recognized as expense by the School under the Agreement amounted to \$3,070,455 and \$2,638,374, respectively.

As of June 30, 2019 and 2018, amounts due to DREAM from the School amounted to \$381,975 and \$43,691, respectively. During the year ended June 30, 2018, DREAM forgave \$796,211 of the accumulated balance due. This balance is non-interest bearing. Management anticipates the balance will be settled as funds become available from operations.

The School received the use of facilities without charge from DREAM, which was valued at approximately \$1,750,000 and \$1,600,000 for the years ended June 30, 2019 and 2018, respectively.

During April 2017, DREAM entered into a lease agreement with a landlord and subsequently entered into a sublease agreement to lease the same space to the School for use as a new high school. Rent expense amounted to \$1,265,500 and \$923,206 for the years ended June 30, 2019 and 2018, respectively. Approximate future annual minimum rentals related to the lease are as follows for the years ended subsequent to June 30, 2019:

2020	\$ 966,000
2021	1,008,000
2022	1,113,000
2023	189,000
	\$ 3,276,000

NOTE 9 – LINE OF CREDIT

The School had a line of credit of \$1,000,000. The line of credit was secured by the School’s assets and bore interest at prime plus 1.5%. The line of credit expired in January 2018 and was not renewed.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 10 – CONTINGENCIES

- A. The School believes it had no uncertain tax positions as of June 30, 2019 and 2018, in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.
- B. Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowances of costs submitted for reimbursement by the School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were available for the following purposes as of June 30:

	<u>2019</u>	<u>2018</u>
Time restricted	\$ 1,087,250	\$ 1,000
Poverty fighting partnership	-	50,000
	<u>\$ 1,087,250</u>	<u>\$ 51,000</u>

During the years ended June 30, 2019 and 2018, net assets with donor restrictions were released by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	<u>2019</u>	<u>2018</u>
Poverty fighting partnership	\$ -	\$ 200,000
Pre-K	-	40,000
Time restricted	419,750	-
	<u>\$ 419,750</u>	<u>\$ 240,000</u>

NOTE 12 – CONCENTRATIONS

- A. The School receives a majority of its revenues from the New York State Education Department through the NYCDOE Office of Schools. The NYCDOE provides general operating support to the School based upon the location and the number of students enrolled. Funding from the NYCDOE amounted to approximately 68% of total revenue for each of the years ended June 30, 2019 and 2018, respectively. The School is dependent upon this level of funding in order to continue its operations.
- B. Cash accounts that potentially subject the School to a concentration of credit risk include cash accounts with two banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Cash accounts are insured up to \$250,000 per depositor. As of June 30, 2019 and 2018, there was approximately \$1,908,000 and \$1,055,000, respectively, of cash and cash equivalents held by two banks that exceeded FDIC limits.

NOTE 13 – PENSION 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. During each of the years ended June 30, 2019 and 2018, the School contributed a 4% match for qualified participating staff members with one or more years of service. Employer contributions totaled \$140,099 and \$112,247 for the years ended June 30, 2019 and 2018, respectively.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through October 31, 2019, the date the financial statements were available to be issued.

INDEPENDENT AUDITORS' 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, in accordance with the 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, the financial statements of Dream Charter School (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 a 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 audits, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marks Paneth LLP

New York, NY
October 31, 2019