

# Harlem RBI, Inc. d/b/a DREAM and Affiliates



## Consolidated Financial Statements and Supplementary Information (Together with Independent Auditors' Report)

Years Ended June 30, 2019 and 2018

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2019 AND 2018**

**CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report.....	1-2
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position .....	3
Consolidated Statements of Activities .....	4
Consolidated Statements of Functional Expenses .....	5-6
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements .....	8-15
<b>Supplementary Information:</b>	
Consolidating Schedule of Financial Position as of June 30, 2019.....	16
Consolidating Schedule of Activities for the Year Ended June 30, 2019 .....	17

## INDEPENDENT AUDITORS' REPORT

The Board of Directors of the  
Harlem RBI, Inc. d/b/a DREAM and Affiliates

We have audited the accompanying consolidated financial statements of Harlem RBI, Inc. d/b/a DREAM ("DREAM") and Affiliates (collectively, the "Organization") which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated financial statements.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization 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 2P to the financial statements, during the year ended June 30, 2019, the Organization 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 Matter***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information (shown on pages 16 and 17) is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Mark Paneth UP*

New York, NY  
January 10, 2020

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2D and 10)	\$ 5,067,899	\$ 4,815,798
Investments (Notes 2F and 4)	2,353,206	3,291,805
Contributions receivable, net (Notes 2G and 5)	6,544,467	5,081,200
Government grants receivable (Note 2G)	392,562	236,994
Due from institutional partner (Note 8)	399,115	49,320
Prepaid expenses and other assets (Note 9)	1,490,497	256,767
Restricted cash (Note 2E)	1,134,258	1,478,185
Property and equipment, net (Notes 2H and 6)	64,228,695	64,630,549
<b>TOTAL ASSETS</b>	<b>\$ 81,610,699</b>	<b>\$ 79,840,618</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,249,019	\$ 1,022,056
NMTC loans payable (Note 7)	25,478,072	25,463,427
<b>TOTAL LIABILITIES</b>	<b>26,727,091</b>	<b>26,485,483</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 9)		
<b>NET ASSETS</b> (Note 2C)		
Without donor restrictions:		
Operating	9,093,409	9,089,935
Net investment in property and equipment	39,884,881	40,645,307
Total without donor restrictions	48,978,290	49,735,242
With donor restrictions (Note 11)	5,905,318	3,619,893
<b>TOTAL NET ASSETS</b>	<b>54,883,608</b>	<b>53,355,135</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 81,610,699</b>	<b>\$ 79,840,618</b>

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

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATED 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
<b>OPERATING REVENUE AND SUPPORT</b> (Note 2O):						
Contributions (Note 2I)	\$ 4,166,482	\$ 5,848,000	\$ 10,014,482	\$ 4,252,709	\$ 973,134	\$ 5,225,843
Contributions - capital funding (Note 2I)	980	-	980	-	401,942	401,942
Government grants (Note 2J)	881,238	-	881,238	1,074,671	-	1,074,671
Government grants - capital funding (Notes 2J and 6)	-	-	-	901,600	-	901,600
Special event revenue (net of direct expenses of \$596,447 and \$492,317, respectively) (Note 2I)	5,592,845	-	5,592,845	6,771,214	-	6,771,214
Contractual services (Notes 2K and 8)	3,070,455	-	3,070,455	1,842,165	-	1,842,165
Donated services (Note 2L)	1,486,140	-	1,486,140	1,164,255	-	1,164,255
Investment activity (Notes 2F and 4)	104,633	-	104,633	15,726	-	15,726
Rental income (Note 8)	1,150,000	-	1,150,000	-	-	-
Other income	21,858	-	21,858	43,969	-	43,969
Net assets released from restrictions (Note 11)	<u>3,562,575</u>	<u>(3,562,575)</u>	<u>-</u>	<u>3,775,938</u>	<u>(3,775,938)</u>	<u>-</u>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>20,037,206</u>	<u>2,285,425</u>	<u>22,322,631</u>	<u>19,842,247</u>	<u>(2,400,862)</u>	<u>17,441,385</u>
<b>OPERATING EXPENSES</b> (Note 2M):						
<b>Program Services</b>	<u>15,101,609</u>	<u>-</u>	<u>15,101,609</u>	<u>13,477,549</u>	<u>-</u>	<u>13,477,549</u>
<b>Supporting Services:</b>						
Management and general	3,721,044	-	3,721,044	3,584,150	-	3,584,150
Fundraising	<u>1,971,505</u>	<u>-</u>	<u>1,971,505</u>	<u>1,695,395</u>	<u>-</u>	<u>1,695,395</u>
<b>Total Supporting Services</b>	<u>5,692,549</u>	<u>-</u>	<u>5,692,549</u>	<u>5,279,545</u>	<u>-</u>	<u>5,279,545</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>20,794,158</u>	<u>-</u>	<u>20,794,158</u>	<u>18,757,094</u>	<u>-</u>	<u>18,757,094</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>(756,952)</u>	<u>2,285,425</u>	<u>1,528,473</u>	<u>1,085,153</u>	<u>(2,400,862)</u>	<u>(1,315,709)</u>
<b>NON-OPERATING ACTIVITIES</b>						
Donated property (Note 6)	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>
<b>CHANGE IN TOTAL NET ASSETS</b>	(756,952)	2,285,425	1,528,473	16,085,153	(2,400,862)	13,684,291
Net assets - beginning of year	<u>49,735,242</u>	<u>3,619,893</u>	<u>53,355,135</u>	<u>33,650,089</u>	<u>6,020,755</u>	<u>39,670,844</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 48,978,290</u>	<u>\$ 5,905,318</u>	<u>\$ 54,883,608</u>	<u>\$ 49,735,242</u>	<u>\$ 3,619,893</u>	<u>\$ 53,355,135</u>

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

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
**(With Summarized Comparative Totals for the Year Ended June 30, 2018)**

	Supporting Services			Total Supporting Services	Total 2019	Total 2018
	Program Services	Management and General	Fundraising			
Salaries	\$ 6,575,343	\$ 896,962	\$ 929,527	\$ 1,826,489	\$ 8,401,832	\$ 8,712,596
Payroll taxes and employee benefits (Note 12)	1,181,959	237,465	220,489	457,954	1,639,913	1,547,746
<b>Total salaries and related costs</b>	<b>7,757,302</b>	<b>1,134,427</b>	<b>1,150,016</b>	<b>2,284,443</b>	<b>10,041,745</b>	<b>10,260,342</b>
Instructors and tutors	65,472	-	-	-	65,472	65,851
Scholarships and stipends	60,360	-	-	-	60,360	93,557
Baseball, umpires, equipment and fees	339,020	-	-	-	339,020	198,055
Youth program food and events	748,672	-	-	-	748,672	562,327
Occupancy (Note 9)	834,852	151,318	100,878	252,196	1,087,048	423,598
Telephone and utilities	354,307	70,763	47,098	117,861	472,168	520,933
Office cleaning and maintenance	408,845	61,679	41,644	103,323	512,168	357,782
Information technology	127,051	25,410	16,940	42,350	169,401	639,365
Professional fees (Note 2L)	2,210,954	1,809,468	327,773	2,137,241	4,348,195	2,626,342
Insurance	174,815	26,238	5,196	31,434	206,249	216,897
Communication and outreach	68,757	8,901	9,034	17,935	86,692	118,058
Dues and subscriptions	107,456	33,340	46,961	80,301	187,757	146,003
Interest, bank and credit card fees (Note 7)	368,736	3,546	53,802	57,348	426,084	451,936
Grants	37,626	-	-	-	37,626	36,191
Travel and entertainment	81,919	53,564	21,680	75,244	157,163	145,770
Depreciation and amortization (Note 6)	1,116,499	267,205	-	267,205	1,383,704	1,418,467
Other	238,966	75,185	746,930	822,115	1,061,081	967,937
	<u>15,101,609</u>	<u>3,721,044</u>	<u>2,567,952</u>	<u>6,288,996</u>	<u>21,390,605</u>	<u>19,249,411</u>
Less: direct costs of special events	<u>-</u>	<u>-</u>	<u>(596,447)</u>	<u>(596,447)</u>	<u>(596,447)</u>	<u>(492,317)</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 15,101,609</u></b>	<b><u>\$ 3,721,044</u></b>	<b><u>\$ 1,971,505</u></b>	<b><u>\$ 5,692,549</u></b>	<b><u>\$ 20,794,158</u></b>	<b><u>\$ 18,757,094</u></b>

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

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Supporting Services			Total Supporting Services	Total 2018
	Program Services	Management and General	Fundraising		
Salaries	\$ 6,728,602	\$ 1,009,805	\$ 974,189	\$ 1,983,994	\$ 8,712,596
Payroll taxes and employee benefits (Note 12)	<u>1,169,963</u>	<u>177,897</u>	<u>199,886</u>	<u>377,783</u>	<u>1,547,746</u>
<b>Total salaries and related costs</b>	7,898,565	1,187,702	1,174,075	2,361,777	10,260,342
Instructors and tutors	65,851	-	-	-	65,851
Scholarships and stipends	93,557	-	-	-	93,557
Baseball, umpires, equipment and fees	183,636	-	14,419	14,419	198,055
Youth program food and events	562,327	-	-	-	562,327
Occupancy (Note 9)	383,905	25,662	14,031	39,693	423,598
Telephone and utilities	432,396	54,169	34,368	88,537	520,933
Office cleaning and maintenance	304,442	35,560	17,780	53,340	357,782
Information technology	517,262	62,784	59,319	122,103	639,365
Professional fees (Note 2L)	880,258	1,680,354	65,730	1,746,084	2,626,342
Insurance	150,422	65,246	1,229	66,475	216,897
Communication and outreach	97,200	10,340	10,518	20,858	118,058
Dues and subscriptions	67,917	23,686	54,400	78,086	146,003
Interest, bank and credit card fees (Note 7)	386,897	17,236	47,803	65,039	451,936
Grants	36,191	-	-	-	36,191
Travel and entertainment	82,387	41,382	22,001	63,383	145,770
Depreciation and amortization (Note 6)	1,115,572	302,895	-	302,895	1,418,467
Other	<u>218,764</u>	<u>77,134</u>	<u>672,039</u>	<u>749,173</u>	<u>967,937</u>
	13,477,549	3,584,150	2,187,712	5,771,862	19,249,411
Less: direct costs of special events	<u>-</u>	<u>-</u>	<u>(492,317)</u>	<u>(492,317)</u>	<u>(492,317)</u>
<b>TOTAL EXPENSES</b>	<u>\$ 13,477,549</u>	<u>\$ 3,584,150</u>	<u>\$ 1,695,395</u>	<u>\$ 5,279,545</u>	<u>\$ 18,757,094</u>

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



**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,528,473	\$ 13,684,291
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized (gain) loss on investments	(28,953)	20,178
Realized (gain) loss on investments	(6,966)	5,243
Value of contributed property	-	(15,000,000)
Noncash interest expense	14,645	15,210
Depreciation and amortization	1,383,704	1,418,467
Subtotal	2,890,903	143,389
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Contributions receivable	(1,463,267)	1,113,081
Government grants receivable	(155,568)	(74,574)
Due to (from) institutional partner	(349,795)	258,693
Prepaid expenses and other assets	(1,233,730)	(13,480)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	226,963	(5,901)
Deferred revenue and refundable advances	-	(11,865)
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(84,494)</b>	<b>1,409,343</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(3,308,473)	(1,179,306)
Sales of investments	4,282,991	1,426,908
Purchases of property and equipment	(981,850)	(767,417)
<b>Net Cash Used in Investing Activities</b>	<b>(7,332)</b>	<b>(519,815)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>(91,826)</b>	<b>889,528</b>
Cash, cash equivalents and restricted cash - beginning of year	6,293,983	5,404,455
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR</b>	<b>\$ 6,202,157</b>	<b>\$ 6,293,983</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during year for interest	\$ 186,300	\$ 185,735
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	\$ 5,067,899	\$ 4,815,798
Restricted cash	1,134,258	1,478,185
	<b>\$ 6,202,157</b>	<b>\$ 6,293,983</b>

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

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

Harlem RBI, Inc. d/b/a DREAM (“DREAM”) is a tax-exempt organization under IRS Section 501(c)(3), located in East Harlem, New York. DREAM provides inner-city youth with opportunities to play, learn and grow and uses the power of teams to coach, teach and inspire youth to recognize their potential and realize their dreams.

DREAM provides academic enrichment and sports programming to approximately 1,700 East Harlem, South Bronx, and Newark youth, ages 5-22, during after-school and summer hours. DREAM’s approach to youth development and education addresses the barriers inner-city youth typically face by providing concrete opportunities to build the skills and confidence needed to break the cycle of poverty. All DREAM participants play on a baseball or softball team, which serves as both a “hook” to attract youth participation and a tool to help youth develop as leaders, teammates and individuals. DREAM’s off-the-field activities consist of a series of age-appropriate, team-based after-school and summer programs that change over time as participants grow from year-to-year. Programs are free of charge and open to all participants regardless of athletic or academic ability.

DREAM’s participants avoid the perils that trap many inner-city youth while working toward high school graduation and college matriculation. DREAM’s programs provide safe, supportive and engaging opportunities for youth. DREAM’s programs encourage youth to become physically and mentally healthy and able to avoid derailing behaviors, to be academically successful and attend rigorous high schools and matriculating to post-secondary education programs, to be work ready with the basic knowledge and skills to find and maintain a job, to be competent in DREAM’s six major life skills, which include communication, problem solving, goal setting, self-advocacy, persistence and the ability to form and maintain healthy peer and adult relationships; and to become confident, competent and caring members of their communities.

DREAM completed development of a new site in 2016 for DREAM Charter School (the “School”) and DREAM’s administrative offices. In connection with this project, two entities have been established, Harlem RBI Home Base LLC (“HRHB”) and HRBI DREAM Partners LLC (“HRDP”). DREAM is the sole member of each. HRHB and HRDP are considered to be Qualified Active Low-Income Community Businesses, and act as borrowers as part of a New Market Tax Credit transaction to be used to finance a portion of the project. See Note 7 for additional information.

In December 2017, DREAM created DREAM on 125 LLC (“DREAM on 125”) for the purpose of receiving donated property and developing it for future use. DREAM is the sole member of DREAM on 125.

In May 2019, DREAM created DREAM 2020 LLC (“DREAM 2020”) for the purpose of entering real estate transactions to lease a building. DREAM is the sole member of DREAM 2020 LLC.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. ***Basis of Consolidation*** - The consolidated financial statements include the activities of DREAM, HRHB, HRDP, DREAM on 125 and DREAM 2020 (collectively referred to as the “Organization”). Upon consolidation, all significant intercompany balances and transactions are eliminated.
- B. ***Basis of Presentation*** - The Organization’s consolidated financial statements have been prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America (“U.S. GAAP”).
- C. ***Net Assets*** - The Organization reports information regarding its consolidated financial position and activities in two classes of net assets:
  - Without donor restrictions – Net assets that can be spent at the discretion of the Organization 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 Organization did not have any net assets with donor restrictions to be held in perpetuity as of June 30, 2019 and 2018.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- D. **Cash and Cash Equivalents** - The Organization considers all highly liquid instruments with maturities of three months or less when acquired to be cash equivalents.
- E. **Restricted Cash** - Restricted cash consists of reserves required for loans and cash reserves as part of capital projects.
- F. **Investments and Fair Value Measurements** - Investments are stated at fair value. Realized and unrealized gains and losses are recognized as changes in net assets in the period in which they occur, and interest and dividends are recognized as revenue in the period earned. Fair value measurements are based on the price 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 4.
- G. **Contributions Receivable and Government Grants Receivable** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. If material to the consolidated financial statements, the discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization has not established a reserve for uncollectible receivables because they deem all receivables to be fully collectable based on analysis and historical experience. There was no bad debt expense for the years ended June 30, 2019 and 2018.

- H. **Property and Equipment** - Property and equipment are stated at cost less accumulated depreciation and amortization. These amounts are not intended to represent replacement or realizable values. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful life of the term of the lease. The Organization capitalizes property and equipment having a cost of \$3,000 or more and a useful life of at least one year.
- I. **Contributions** - Contributions are recorded as increases in net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.
- J. **Government Grants** - The Organization derives some of its revenue from cost reimbursement contracts and fee for service programs with government agencies which are recognized as revenue as those costs are incurred and the revenue is earned. Advances received on grants are recorded as liabilities until the expenses are incurred, at which time revenue is recognized.
- K. **Contractual Services** - Revenue earned in connection with an institutional partnership agreement with the School (see Note 8) is classified as contractual services on the accompanying consolidated statements of activities and is recognized as services are performed.
- L. **Donated Services** - Donated services are recognized in the accompanying consolidated financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The Organization received in-kind professional services valued at \$1,486,140 and \$1,164,255 for the years ended June 30, 2019 and 2018, respectively.
- M. **Functional Allocation of Expenses** - The cost of providing the various program and supporting services has been summarized on a functional basis in the accompanying consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Salaries and fringe benefits, payroll taxes and other select expenses are directly applied when possible and allocated based on estimates of time and effort. Facilities costs are allocated based on square footage estimates.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- N. **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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- O. **Operating and Non-Operating Activities** - The Organization includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, including all contributions except for donations of property.
- P. **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 expenses allocation. ASU 2016-18 requires that restricted cash be included with cash and cash equivalents on the accompanying statement 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 Organization has renamed prior year net assets and fully comparative financial statements are presented.
- Q. **Reclassifications** - Certain items in the June 30, 2018 financial statements have been reclassified to conform with the June 30, 2019 presentation. These reclassifications had no impact on the change in net assets for the year ended June 30, 2018.

**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	\$	5,067,899
Restricted cash		1,134,258
Investments		2,353,206
Contributions receivable, net		6,544,467
Government grants receivable		392,562
Due from institutional partner		<u>399,115</u>
Total financial assets		15,891,507
Less: net assets with donor restrictions		(5,080,318)
Less: amounts due from institutional partner		(399,115)
Less: restricted cash		<u>(1,134,258)</u>
		<u>\$ 9,277,816</u>

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

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of U.S. treasury bills, which amounted to \$2,353,206 and \$3,291,805 as of June 30, 2019 and 2018, respectively.

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

	2019	2018
Unrealized gain (loss)	\$ 28,953	\$ (20,178)
Realized gain (loss)	6,966	(5,243)
Interest	68,714	41,147
	\$ 104,633	\$ 15,726

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

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 2 – Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3 – Valuations based on unobservable inputs are used when little to no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Organization 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 treasury bills are valued using quoted prices in active markets and are valued at Level 1.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended June 30, 2019 and 2018, there were no transfers.

Investments carried at fair value as of June 30, 2019 are classified in the table as follows:

	Level 1	Total
U.S. Treasury bills	\$ 2,353,206	\$ 2,353,206
	\$ 2,353,206	\$ 2,353,206

Investments carried at fair value as of June 30, 2018 are classified in the table as follows:

	Level 1	Total
U.S. Treasury bills	\$ 3,291,805	\$ 3,291,805
	\$ 3,291,805	\$ 3,291,805

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 5 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Amounts due in less than one year	\$ 3,099,526	\$ 3,593,833
Amounts due in one to five years	<u>3,546,500</u>	<u>1,554,583</u>
	6,646,026	5,148,416
Less discount to present value at 2%	<u>(101,559)</u>	<u>(67,216)</u>
	<u>\$ 6,544,467</u>	<u>\$ 5,081,200</u>

**NOTE 6 – PROPERTY AND EQUIPMENT**

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

	<u>2019</u>	<u>2018</u>	<u>Useful Life</u>
Land	\$ 14,000,000	\$ 14,000,000	
Building	3,000,000	3,000,000	30 years
Leasehold improvements	2,300,957	2,300,957	5-7 years
Equipment	853,468	853,468	3–5 years
Furniture	178,476	178,476	7 years
Field costs (A)	805,413	805,413	7 years
Blake Hobbs Park	2,486,999	2,486,999	20 years
Patterson Park	1,016,157	1,016,157	20 years
Leasehold improvements - School (B)	46,323,447	46,311,584	50 years
Construction in progress (C)	<u>969,987</u>	<u>-</u>	
	71,934,904	70,953,054	
Less: accumulated depreciation and amortization	<u>(7,706,209)</u>	<u>(6,322,505)</u>	
	<u>\$ 64,228,695</u>	<u>\$ 64,630,549</u>	

Depreciation and amortization expense amounted to \$1,383,704 and \$1,418,467 for the years ended June 30, 2019 and 2018, respectively.

(A) The Organization rebuilt its Field of Dreams in 2005. The Organization licensed the property from the City of New York Department of Parks and Recreation for an initial term of five years. The lease was renewed for a subsequent term ending in January 2024. Field costs include all design and construction costs incurred for the project. The Organization is obligated to maintain the field during the duration of the agreement.

(B) As indicated in Note 1, the Organization developed a new site for the School and DREAM's administrative offices. On December 20, 2012, the Organization purchased land on two adjoining lots in East Harlem and the HRBI Condominium was created with three units. One designated for the School ("School Unit") and is owned by HRDP, a second was designated for construction of the administrative offices and is owned by HRHB, and a third was created for an adjacent residential building, which is owned by an unrelated third party. Under a funding agreement that the Organization entered into with the New York City School Construction Authority ("SCA"), a portion of the costs was reimbursed by SCA. Pursuant to the terms of the funding agreement with SCA, during the year ended June 30, 2018, title of the School Unit transferred to SCA, and SCA leased the building back to the School through a series of subleases. The lease term is 99 years at \$1 per year.

(C) During the year ended June 30, 2019, the Organization entered into a lease for property in Bronx, NY, with the intention of starting a charter school. Construction in progress relates to the build-out of this building and is expected to be completed by the summer of 2021 at an estimated cost to complete of approximately \$40 million.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 7 – NMTC LOANS PAYABLE**

In September 2013, DREAM entered into various agreements for the purpose of participating in the federal New Markets Tax Credit program (“NMTC”). In connection with this transaction, DREAM made three grants without restrictions totaling \$18,342,282 to Home Run Projects, Inc. (“Home Run”). As the leveraged lender, Home Run used the restricted grants to provide a loan to an NMTC investor. The NMTC investor used the loan to leverage its equity investment and made a loan to four of its subsidiaries, each of which is considered a Community Development Entity (“CDE”). Each CDE then made loans to HRDP with the following terms as of June 30:

	<u>2019</u>	<u>2018</u>	<u>Interest Rate</u>
Nonprofit Finance Fund	\$ 9,600,000	\$ 9,600,000	0.7147%
Community Investment Fund	6,790,000	6,790,000	0.7011%
Urban American	5,820,000	5,820,000	0.6942%
Chase New Market Credit	<u>4,000,000</u>	<u>4,000,000</u>	0.6725%
	26,210,000	26,210,000	
Less: deferred financing costs	<u>(731,928)</u>	<u>(746,573)</u>	
	<u>\$25,478,072</u>	<u>\$ 25,463,427</u>	

The NMTC loans are due September 16, 2053. The terms of the loans call for interest-only payments to be made for the first seven years, beginning December 10, 2013. After the seven-year period, the loans amortize over 33 years.

Interest expense amounted to \$198,073 and \$198,347 for the years ended June 30, 2019 and 2018, respectively. Amortization of deferred financing costs amounted to \$14,645 and \$15,210 for the years ended June 30, 2019 and 2018, respectively, and is included in interest, bank, and credit card fees on the accompanying consolidated statements of functional expenses.

**NOTE 8 – RELATED PARTY TRANSACTIONS**

The Organization has an Institutional Partnership Agreement (the “Agreement”) with the School, which has common management. The Agreement serves as the foundation of the governance relationship between the Organization and the School and describes the nature and costs of the Organization’s executive management and back office services to the School. Both the Organization’s Board of Directors and the School’s Board of Trustees 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 revenue by the Organization under the Agreement amounted to \$3,070,455 and \$1,842,165, respectively.

As of June 30, 2019 and 2018, amounts due to the Organization from the School amounted to \$381,975 and \$43,691, respectively.

The School received the use of facilities without charge from the Organization, 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, the Organization 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. The sublease with the School was extended effective July 1, 2018. During the year ended June 30, 2019, the School paid rental revenue of \$1,150,000 to the Organization.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

- A. DREAM has a number of operating lease agreements. Approximate annual minimum rentals payable for real and personal property are as follows for each year ended after June 30, 2019:

2020	\$	1,139,000
2021		1,047,000
2022		1,117,000
2023		190,000
2024		-
Thereafter		-
	<u>\$</u>	<u>3,493,000</u>

Rent expense amounted to \$1,087,948 and \$423,598 for the years ended June 30, 2019 and 2018, respectively.

During the year ended June 30, 2019, the Organization signed an agreement to lease a building with the intention of expanding the existing charter schools. The lease is expected to commence in 2021 with a term of 44 years. As part of the agreement, the Organization prepaid rent of \$1,000,000, which was recorded as prepaid and other assets on the accompanying consolidated statements of financial position. The Organization also agreed to convey land and buildings with a net book value of approximately \$15,000,000 to the landlord for tenant improvements. The Organization retains title to such land and buildings until the lease commences.

- B. The Organization 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.
- C. DREAM had a \$1,000,000 line of credit with a bank, which has a variable interest rate equal to prime plus 1.5 percent. The line of credit expired in January 2018 and was not renewed.
- D. Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period in which the Organization was notified.

**NOTE 10 – CONCENTRATIONS OF CREDIT RISK**

Cash and cash equivalents that potentially subject the Organization to a concentration of credit risk include cash accounts with banks that may exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest bearing accounts are insured up to \$250,000 per depositor. As of June 30, 2019 and 2018, cash and cash equivalents held in three banks exceeded FDIC limits by approximately \$5 million and \$6 million, respectively.

**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS**

As of June 30, 2019 and 2018, net assets with donor restrictions were restricted for the following purposes:

	<u>2019</u>	<u>2018</u>
Capital Campaign	\$ 50,000	\$ 150,000
College Prep	200,000	75,000
After School	150,000	45,834
Real Kids Replication	425,000	637,500
Time restricted	<u>5,080,318</u>	<u>2,711,559</u>
	<u>\$ 5,905,318</u>	<u>\$ 3,619,893</u>

Net assets were released from donor restrictions from the passage of time or by incurring expenses in the amount of \$3,562,575 and \$3,775,938 for the years ended June 30, 2019 and 2018, respectively.



**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 12 – PENSION PLAN**

The Organization maintains a tax deferred 403(b) retirement plan covering its employees. The Organization matches employee contributions up to 4% of the employee's salary. The Organization contributed approximately \$130,000 and \$134,000 to the plan for the years ended June 30, 2019 and 2018, respectively.

**NOTE 13 – SUBSEQUENT EVENTS**

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through January 10, 2020, the date the consolidated financial statements were available to be issued.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019**

	<u>DREAM</u>	<u>HRBI DREAM Partners, LLC</u>	<u>HRBI Home Base, LLC</u>	<u>Dream on 125 LLC</u>	<u>Dream 2020 LLC</u>	<u>Eliminations</u>	<u>Total 2019</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 5,065,800	\$ 834	\$ 1,265	\$ -	\$ -	\$ -	\$ 5,067,899
Investments	2,353,206	-	-	-	-	-	2,353,206
Contributions receivable, net	6,544,467	-	-	-	-	-	6,544,467
Government grants receivable	392,562	-	-	-	-	-	392,562
Due from institutional partner	871,694	(28,292)	-	(100,266)	(344,021)	-	399,115
Prepaid expenses and other assets	440,724	47	-	49,726	1,000,000	-	1,490,497
Investment in subsidiary	35,829,314	-	-	-	-	(35,829,314)	-
Restricted cash	532,463	601,795	-	-	-	-	1,134,258
Property and equipment, net	<u>3,589,864</u>	<u>42,012,049</u>	<u>2,656,796</u>	<u>15,000,000</u>	<u>969,986</u>	<u>-</u>	<u>64,228,695</u>
<b>TOTAL ASSETS</b>	<u>\$ 55,620,094</u>	<u>\$ 42,586,433</u>	<u>\$ 2,658,061</u>	<u>\$ 14,949,460</u>	<u>\$ 1,625,965</u>	<u>\$ (35,829,314)</u>	<u>\$ 81,610,699</u>
<b>LIABILITIES</b>							
Accounts payable and accrued expenses	\$ 736,486	\$ 91,568	\$ -	\$ -	\$ 420,965	\$ -	\$ 1,249,019
NMTC loans payable	<u>-</u>	<u>25,478,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,478,072</u>
<b>TOTAL LIABILITIES</b>	<u>736,486</u>	<u>25,569,640</u>	<u>-</u>	<u>-</u>	<u>420,965</u>	<u>-</u>	<u>26,727,091</u>
<b>NET ASSETS</b>							
Without donor restrictions	48,978,290	17,016,793	2,658,061	14,949,460	1,205,000	(35,829,314)	48,978,290
With donor restrictions	<u>5,905,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,905,318</u>
<b>TOTAL NET ASSETS</b>	<u>54,883,608</u>	<u>17,016,793</u>	<u>2,658,061</u>	<u>14,949,460</u>	<u>1,205,000</u>	<u>(35,829,314)</u>	<u>54,883,608</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 55,620,094</u>	<u>\$ 42,586,433</u>	<u>\$ 2,658,061</u>	<u>\$ 14,949,460</u>	<u>\$ 1,625,965</u>	<u>\$ (35,829,314)</u>	<u>\$ 81,610,699</u>

See independent auditors' report.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES  
CONSOLIDATING SCHEDULE OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

	DREAM			HRBI DREAM Partners, LLC Without Donor Restrictions	HRBI Home Base, LLC Without Donor Restrictions	Dream on 125 LLC Without Donor Restrictions	Dream 2020 LLC Without Donor Restrictions	Eliminations	Consolidated Total		
	Without Donor Restrictions	With Donor Restrictions	Total						Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT:</b>											
Contributions	\$ 2,961,482	\$ 5,848,000	\$ 8,809,482	\$ -	\$ -	\$ -	1,205,000	\$ -	\$ 4,166,482	\$ 5,848,000	\$ 10,014,482
Contributions - capital funding	980	-	980	-	-	-	-	-	980	-	980
Government grants	881,238	-	881,238	-	-	-	-	-	881,238	-	881,238
Special event revenue net of direct expenses	5,592,845	-	5,592,845	-	-	-	-	-	5,592,845	-	5,592,845
Contractual services	3,070,455	-	3,070,455	-	-	-	-	-	3,070,455	-	3,070,455
Donated services	1,486,140	-	1,486,140	-	-	-	-	-	1,486,140	-	1,486,140
Investment return	100,668	-	100,668	3,965	-	-	-	-	104,633	-	104,633
Gain (loss) from subsidiaries	(137,349)	-	(137,349)	-	-	-	-	137,349	-	-	-
Rental income	1,150,000	-	1,150,000	-	-	-	-	-	1,150,000	-	1,150,000
Other income	21,858	-	21,858	-	-	-	-	-	21,858	-	21,858
Net assets released from restrictions	3,562,575	(3,562,575)	-	-	-	-	-	-	3,562,575	(3,562,575)	-
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>18,690,892</u>	<u>2,285,425</u>	<u>20,976,317</u>	<u>3,965</u>	<u>-</u>	<u>-</u>	<u>1,205,000</u>	<u>137,349</u>	<u>20,037,206</u>	<u>2,285,425</u>	<u>22,322,631</u>
<b>OPERATING EXPENSES</b>											
<b>Program Services</b>	<u>13,755,295</u>	<u>-</u>	<u>13,755,295</u>	<u>1,225,272</u>	<u>70,502</u>	<u>50,540</u>	<u>-</u>	<u>-</u>	<u>15,101,609</u>	<u>-</u>	<u>15,101,609</u>
<b>Supporting Services:</b>											
Management and general	3,721,044	-	3,721,044	-	-	-	-	-	3,721,044	-	3,721,044
Fundraising	1,971,505	-	1,971,505	-	-	-	-	-	1,971,505	-	1,971,505
<b>Total Supporting Services</b>	<u>5,692,549</u>	<u>-</u>	<u>5,692,549</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,692,549</u>	<u>-</u>	<u>5,692,549</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>19,447,844</u>	<u>-</u>	<u>19,447,844</u>	<u>1,225,272</u>	<u>70,502</u>	<u>50,540</u>	<u>-</u>	<u>-</u>	<u>20,794,158</u>	<u>-</u>	<u>20,794,158</u>
<b>CHANGE IN TOTAL NET ASSETS</b>	(756,952)	2,285,425	1,528,473	(1,221,307)	(70,502)	(50,540)	1,205,000	137,349	(756,952)	2,285,425	1,528,473
Net assets - beginning of year	49,735,242	3,619,893	53,355,135	18,238,100	2,728,563	15,000,000	-	(35,966,663)	49,735,242	3,619,893	53,355,135
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 48,978,290</u>	<u>\$ 5,905,318</u>	<u>\$ 54,883,608</u>	<u>\$ 17,016,793</u>	<u>\$ 2,658,061</u>	<u>\$ 14,949,460</u>	<u>\$ 1,205,000</u>	<u>\$ (35,829,314)</u>	<u>\$ 48,978,290</u>	<u>\$ 5,905,318</u>	<u>\$ 54,883,608</u>

See independent auditors' report.