

Dream Charter School



Financial Statements
(Together with Independent Auditors' Report)
And
Report Required by *Government Auditing Standards*
Years Ended June 30, 2017 and 2016

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, 2017 AND 2016

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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 statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. 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 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the School as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 24, 2016, expressed an unmodified opinion on those financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, 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, 2017

**DREAM CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2C and 10B)	\$ 817,684	\$ 1,080,875
Restricted cash (Note 3)	70,000	70,000
Investments (Notes 2D, 2E and 4)	396,092	-
Government grants receivable (Note 2H)	405,149	142,202
Contributions receivable (Note 2H)	241,347	103,000
Due from institutional partner (Note 6)	-	24,560
Prepaid expenses and other assets	183,069	23,076
Property and equipment, net (Notes 2I and 5)	36,908	96,158
TOTAL ASSETS	\$ 2,150,249	\$ 1,539,871
LIABILITIES		
Accounts payable and accrued expenses	\$ 112,123	\$ 146,562
Due to institutional partner (Note 6)	306,763	-
Deferred rent (Notes 2L and 6)	141,750	-
TOTAL LIABILITIES	560,636	146,562
COMMITMENTS AND CONTINGENCIES (Notes 6 and 8)		
NET ASSETS (Note 2B)		
Unrestricted	1,499,613	1,100,393
Temporarily restricted (Note 9)	90,000	292,916
TOTAL NET ASSETS	1,589,613	1,393,309
TOTAL LIABILITIES AND NET ASSETS	\$ 2,150,249	\$ 1,539,871

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

**DREAM CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	For the Year Ended June 30, 2017			For the Year Ended June 30, 2016		
	Unrestricted	Temporarily Restricted	Total 2017	Unrestricted	Temporarily Restricted	Total 2016
PUBLIC SUPPORT AND REVENUE:						
Public school district: (Notes 2G and 10A)						
Tuition - general enrollment	\$ 6,946,687	\$ -	\$ 6,946,687	\$ 6,157,572	\$ -	\$ 6,157,572
Tuition - students with disabilities	<u>1,797,349</u>	<u>-</u>	<u>1,797,349</u>	<u>1,414,375</u>	<u>-</u>	<u>1,414,375</u>
Subtotal public school district revenue	8,744,036	-	8,744,036	7,571,947	-	7,571,947
Government grants (Note 2G)	970,523	-	970,523	1,003,649	-	1,003,649
Contributions (Note 2F)	511,726	90,000	601,726	643,900	311,666	955,566
Donated services and facilities (Note 6)	1,600,000	-	1,600,000	1,795,510	-	1,795,510
Interest and investment income (Note 4)	437	-	437	682	-	682
Other	19,250	-	19,250	7,762	-	7,762
Net assets released from restrictions (Note 9)	<u>292,916</u>	<u>(292,916)</u>	<u>-</u>	<u>85,911</u>	<u>(85,911)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUE	<u>12,138,888</u>	<u>(202,916)</u>	<u>11,935,972</u>	<u>11,109,361</u>	<u>225,755</u>	<u>11,335,116</u>
EXPENSES (Note 2J):						
Program expenses:						
General education	6,961,834	-	6,961,834	6,206,966	-	6,206,966
Special education	<u>3,177,172</u>	<u>-</u>	<u>3,177,172</u>	<u>2,950,417</u>	<u>-</u>	<u>2,950,417</u>
Total program services	10,139,006	-	10,139,006	9,157,383	-	9,157,383
Supporting services:						
Management and general	1,437,440	-	1,437,440	1,840,720	-	1,840,720
Fundraising	<u>163,222</u>	<u>-</u>	<u>163,222</u>	<u>108,469</u>	<u>-</u>	<u>108,469</u>
Total supporting services	1,600,662	-	1,600,662	1,949,189	-	1,949,189
TOTAL EXPENSES	<u>11,739,668</u>	<u>-</u>	<u>11,739,668</u>	<u>11,106,572</u>	<u>-</u>	<u>11,106,572</u>
CHANGE IN NET ASSETS	399,220	(202,916)	196,304	2,789	225,755	228,544
Net Assets - Beginning of Year	<u>1,100,393</u>	<u>292,916</u>	<u>1,393,309</u>	<u>1,097,604</u>	<u>67,161</u>	<u>1,164,765</u>
NET ASSETS - END OF YEAR	<u>\$ 1,499,613</u>	<u>\$ 90,000</u>	<u>\$ 1,589,613</u>	<u>\$ 1,100,393</u>	<u>\$ 292,916</u>	<u>\$ 1,393,309</u>

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

**DREAM CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)**

	For the Year Ended June 30, 2017							
	Program Services			Supporting Services				
	General Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2017	Total 2016
Salaries and wages	\$ 3,581,950	\$ 1,881,345	\$ 5,463,295	\$ 505,015	\$ -	\$ 505,015	\$ 5,968,310	\$ 5,277,155
Fringe benefits and payroll taxes (Note 11)	679,102	358,226	1,037,328	94,508	-	94,508	1,131,836	1,010,031
Total Salaries and Related Costs	4,261,052	2,239,571	6,500,623	599,523	-	599,523	7,100,146	6,287,186
Instructors and tutors	25,138	8,379	33,517	-	-	-	33,517	13,207
Classroom supplies	54,754	18,251	73,005	-	-	-	73,005	132,608
Program food and events	17,671	5,891	23,562	-	-	-	23,562	18,532
Other student expenses	165,912	55,305	221,217	-	-	-	221,217	283,422
Contractual services (Note 6)	539,507	179,836	719,343	774,540	163,222	937,762	1,657,105	1,837,088
Consulting and professional	340,205	115,894	456,099	24,764	-	24,764	480,863	476,815
Telephone and internet	4,740	1,580	6,320	-	-	-	6,320	11,252
Communication and outreach	-	-	-	6,208	-	6,208	6,208	12,270
Professional development	39,283	20,951	60,234	5,238	-	5,238	65,472	98,054
Office and administration	75,740	40,394	116,134	10,099	-	10,099	126,233	121,695
Insurance	27,966	9,322	37,288	6,586	-	6,586	43,874	41,306
Repairs and maintenance	11,479	5,416	16,895	1,354	-	1,354	18,249	48,635
Dues and publications	15,724	8,385	24,109	2,096	-	2,096	26,205	23,243
Donated facilities (Note 6)	1,200,000	400,000	1,600,000	-	-	-	1,600,000	1,600,000
Depreciation (Note 5)	35,550	18,960	54,510	4,740	-	4,740	59,250	81,329
Occupancy (Note 6)	106,313	35,437	141,750	-	-	-	141,750	-
Miscellaneous	40,800	13,600	54,400	2,292	-	2,292	56,692	19,930
TOTAL EXPENSES	\$ 6,961,834	\$ 3,177,172	\$ 10,139,006	\$ 1,437,440	\$ 163,222	\$ 1,600,662	\$ 11,739,668	\$ 11,106,572

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

**DREAM CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services			Supporting Services			Total
	General Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and wages	\$ 3,013,095	\$ 1,704,856	\$ 4,717,951	\$ 559,204	\$ -	\$ 559,204	\$ 5,277,155
Fringe benefits and payroll taxes (Note 11)	<u>523,735</u>	<u>302,976</u>	<u>826,711</u>	<u>183,320</u>	<u>-</u>	<u>183,320</u>	<u>1,010,031</u>
Total Salaries and Related Costs	3,536,830	2,007,832	5,544,662	742,524	-	742,524	6,287,186
Instructors and tutors	5,837	-	5,837	7,370	-	7,370	13,207
Classroom supplies	99,456	33,152	132,608	-	-	-	132,608
Program food and events	13,899	4,633	18,532	-	-	-	18,532
Other student expenses	211,685	70,562	282,247	1,175	-	1,175	283,422
Contractual services (Note 6)	633,163	237,942	871,105	857,514	108,469	965,983	1,837,088
Consulting and professional	316,925	105,642	422,567	54,248	-	54,248	476,815
Telephone and internet	8,439	2,813	11,252	-	-	-	11,252
Communication and outreach	-	-	-	12,270	-	12,270	12,270
Professional development	55,160	31,314	86,474	11,580	-	11,580	98,054
Office and administration	21,094	8,367	29,461	92,234	-	92,234	121,695
Insurance	26,183	8,728	34,911	6,395	-	6,395	41,306
Repairs and maintenance	18,719	5,786	24,505	24,130	-	24,130	48,635
Dues and publications	13,075	7,423	20,498	2,745	-	2,745	23,243
Donated facilities (Note 6)	1,200,000	400,000	1,600,000	-	-	-	1,600,000
Depreciation (Note 5)	45,751	25,973	71,724	9,605	-	9,605	81,329
Miscellaneous	<u>750</u>	<u>250</u>	<u>1,000</u>	<u>18,930</u>	<u>-</u>	<u>18,930</u>	<u>19,930</u>
TOTAL EXPENSES	<u>\$ 6,206,966</u>	<u>\$ 2,950,417</u>	<u>\$ 9,157,383</u>	<u>\$ 1,840,720</u>	<u>\$ 108,469</u>	<u>\$ 1,949,189</u>	<u>\$ 11,106,572</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, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 196,304	\$ 228,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,250	81,329
Gain on disposal of assets	-	19,254
Unrealized loss on investments	2,860	-
	258,414	329,127
Changes in assets and liabilities:		
(Increase) or decrease in assets:		
Contributions receivable	(138,347)	4,580
Government grants receivable	(262,947)	(68,883)
Due to/from institutional partner	331,323	(136,789)
Prepaid expenses and other assets	(159,993)	72,718
Increase or (decrease) in liabilities:		
Accounts payable and accrued expenses	(34,439)	62,646
Deferred rent	141,750	-
	135,761	263,399
Net Cash Provided by Operating Activities	135,761	263,399
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(29,083)
Purchase of investments	(398,952)	-
	(398,952)	(29,083)
Net Cash Used In Investing Activities	(398,952)	(29,083)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loans payable	-	30,000
Repayments of loans payable	-	(30,000)
	-	-
Net Cash Used in Financing Activities	-	-
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(263,191)	234,316
Cash and cash equivalents - beginning of year	1,080,875	846,559
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 817,684	\$ 1,080,875

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

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 518 youth in grades K-8th 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 for a term up to and including June 30, 2018. Such 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 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 maintains its net assets under the following three classes;

Unrestricted – represents net assets not subject to donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted – represents net assets subject to donor-imposed stipulations that will be met by actions of the School or by the passage of time. When such stipulations end or are fulfilled, temporarily restricted net assets are reported in the statements of activities as net assets released from restrictions. When the stipulations from temporarily restricted contributions are met within the year of donation, they are reported as unrestricted.

Permanently Restricted – represents net assets subject to donor-imposed restrictions on the corpus of the gifts specifying they be maintained in perpetuity. There were no permanently restricted net assets as of June 30, 2017 and 2016.

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, 2017 AND 2016**

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 4.
- 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, 2017 and 2016. Contributions receivable of \$241,347 and \$103,000 as of June 30, 2017 and 2016, respectively, represent amounts due in less than one year.
- 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.
- 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, 2017 and 2016, the School received donated use of facilities amounting to \$1,600,000, which is recorded as both revenue and expense in the accompanying financial statements.
- L. **Deferred Rent** – As described in Note 6, 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 \$141,750 for the year ended June 30, 2017. This adjustment is reflected as deferred rent in the accompanying statements of financial position.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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. **Reclassification** – Certain items in the June 30, 2016 financial statements have been reclassified to conform to the June 30, 2017 presentation. These changes had no impact on the change in net assets for the year ended June 30, 2016.

NOTE 3 – 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 \$70,000 as of June 30, 2017 and 2016.

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
United States treasury notes	\$ 396,092	\$ -

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

Investment income consisted of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest	\$ 3,297	\$ -
Unrealized loss on investments	(2,860)	-
	<u>\$ 437</u>	<u>\$ -</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).

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Equipment and computers	\$ 373,660	\$ 373,660	3 years
Furniture and fixtures	<u>177,862</u>	<u>177,862</u>	7 years
	551,522	551,522	
Less: accumulated depreciation and amortization	<u>(514,614)</u>	<u>(455,364)</u>	
Total	<u>\$ 36,908</u>	<u>\$ 96,158</u>	

Depreciation expense amounted to \$59,250 and \$81,329 for the years ended June 30, 2017 and 2016, respectively.

NOTE 6 – RELATED-PARTY TRANSACTIONS

The School has an Institutional Partnership Agreement (the “Agreement”) with DREAM, which is a related party by nature of 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, 2017 and 2016, services provided and recognized as expense by the School under the Agreement amounted to \$1,657,105 and \$1,837,088, respectively.

As of June 30, 2017, amounts due to DREAM from the School amounted to \$306,763. As of June 30, 2016, amounts due to the School from DREAM amounted to \$24,560.

DREAM made grants to the School totaling approximately \$0 and \$100,000 during the years ended June 30, 2017 and 2016.

The School received the use of facilities without charge from DREAM, which was valued at \$1,600,000 for the years ended June 30, 2017 and 2016.

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. There were no payments under the lease during the year ended June 30, 2017. Approximate future annual minimum rentals related to the lease are as follows for the years ended subsequent to June 30, 2017:

2018	\$	525,000
2019		735,000
2020		966,000
2021		1,008,000
2022		1,113,000
Thereafter		<u>189,000</u>
	\$	<u>4,536,000</u>

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 – LINE OF CREDIT

The School has a line of credit of \$1,000,000. The line of credit is secured by the School's assets and bears interest at prime plus 1.5%, but in no event less than 5.0% (amounting to an interest rate of 5.0% and 5.5% as of June 30, 2017 and 2016, respectively). The School is required to maintain a minimum of \$500,000 in deposits with the bank while they have outstanding borrowings, and must maintain certain additional financial covenants while they have outstanding borrowings. The line will expire on January 13, 2018. As of June 30, 2017 and as of October 31, 2017, there were no borrowings.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

- A. The School believes it had no uncertain tax positions as of June 30, 2017 and 2016, 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 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Development of high school	\$ -	\$ 100,000
Foundation implementation and expansion	-	100,000
Pre-K	40,000	26,650
Poverty fighting partnership	50,000	-
Time restricted	-	66,666
	<u>\$ 90,000</u>	<u>\$ 292,916</u>

For the years ended June 30, 2017 and 2016, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Development of high school	\$ 100,000	\$ -
College trip	-	495
Foundation implementation and expansion	100,000	-
Pre-K	26,250	18,750
Time restricted	66,666	66,666
	<u>\$ 292,916</u>	<u>\$ 85,911</u>

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 – CONCENTRATIONS

- A. The School receives a majority of its revenues from the New York State Education Department through the New York City Department of Education Office of Schools. The New York City Department of Education provides general operating support to the School based upon the location and the number of students enrolled. Funding from the New York City Department of Education amounted to approximately 77% and 84% of total revenue for the years ended June 30, 2017 and 2016, 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 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, 2017 and 2016, there was approximately \$709,305 and \$1,063,242, respectively, of cash and cash equivalents held by a bank that exceeded FDIC limits.

NOTE 11 – 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 the years ended June 30, 2017 and 2016, the School contributed a 4% match for qualified participating staff members with one or more years of services. Employer contributions totaled \$99,857 and \$56,895 for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated, for potential accrual or disclosure, events subsequent to the date of the statements of financial position through October 31, 2017, 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, 2017 and 2016, 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, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit 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 audit 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 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*.

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, 2017