

Dream Charter School



**Financial Statements
(Together with Independent Auditors' Report)
and
Report Required by *Government Auditing Standards*
Years Ended June 30, 2020 and 2019**

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, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, 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.

A handwritten signature in black ink that reads "Mark Paneth UP". The signature is written in a cursive, slightly slanted style.

New York, NY
October 30, 2020

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 841 youth in grades PreK-11th grade and serves youth in East Harlem and Mott Haven. 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. Three members of DREAM's Board of Directors serve on the School's Board of Trustees.

Effective October 5, 2018, the School was granted its renewal and approval for the establishment of the DREAM Charter Schools Mott Haven and Hunts Point by the SUNY Charter Schools Institute, The State of New York.

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, 2020 and 2019.
- 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, 2020 AND 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- D. ***Contributions and Grants*** – Contributions and grants 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 and grants receivable are expected to be collected within one year.

Government grants and contracts are nonexchange transactions and accounted for under ASU 2018-08. Grants and contracts are recognized as revenue when barriers within the contract are overcome, and there is no right of return/ release from obligation. Grants and contracts amounted to \$2,930,652 and \$2,066,673 as of June 30, 2020 and 2019, respectively.

- E. ***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.
- F. ***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, 2020 and 2019.
- G. ***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.
- H. ***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.
- I. ***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 each of the years ended June 30, 2020 and 2019, the School received donated use of services and facilities amounting to \$1,744,650, which is recorded as both revenue and expense in the accompanying financial statements.
- J. ***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 a decrease in occupancy expenses of \$115,500 for the year ended June 30, 2020 and an increase of \$115,500 for the year ended June 30, 2019. This adjustment is reflected as deferred rent in the accompanying statements of financial position.
- K. ***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.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. **Recently Enacted Accounting Standards** – Financial Accounting Standards Board (“FASB”) Accounting Standards Update ASU 2018-08, “Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made” (Topic 958) was adopted by the School for the year ended June 30, 2020. The core guidance is to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and determining whether a contribution or government grant is conditional as described in Note 2D.

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

Financial assets as of June 30, 2020 and 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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,051,733	\$ 2,194,111
Restricted cash	150,000	75,000
Government grants receivable	640,000	366,050
Contributions receivable, net	<u>859,562</u>	<u>1,347,679</u>
 Total financial assets	 6,701,295	 3,982,840
 Less: net assets with donor restrictions	 (719,812)	 (1,087,250)
Less: restricted cash	<u>(150,000)</u>	<u>(75,000)</u>
	<u>\$ 5,831,483</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 \$150,000 and \$75,000 as of June 30, 2020 and 2019, respectively.

NOTE 5 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Due within 1 year	\$ 485,540	\$ 691,000
Due within 1 to 5 years	<u>385,710</u>	<u>681,500</u>
	871,250	1,372,500
Present value discount at 2.00%	<u>(11,688)</u>	<u>(24,821)</u>
	<u>\$ 859,562</u>	<u>\$ 1,347,679</u>

Approximately 98% of contributions receivable as of June 30, 2020 are from two donors.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 – PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>	<u>Estimated Useful Lives</u>
Equipment and computers	\$ 373,660	\$ 373,660	3 years
Furniture and fixtures	<u>200,987</u>	<u>200,987</u>	7 years
	574,647	574,647	
Less: accumulated depreciation	<u>(559,987)</u>	<u>(552,123)</u>	
Total	<u>\$ 14,660</u>	<u>\$ 22,524</u>	

Depreciation expense amounted to \$7,864 and \$10,774 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 – PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

On March 27, 2020, in response to COVID-19, the federal government passed the Coronavirus Aid, Relief, and Economic Stability Act (“CARES Act”). Among many other provisions, to help businesses retain employees, the CARES Act provides relief to qualifying businesses through a program called the Paycheck Protection Program (“PPP”). Participating in the PPP enables the business to obtain a loan from the Small Business Administration (SBA). If the proceeds from the loan are used for specified purposes, some or all of the loan can be forgiven. The School applied for this loan through an SBA authorized lender. The loan, amounting to \$2,213,946, was approved in April 2020 and received on April 24, 2020. The School intends to comply with all requirements for loan forgiveness. If the School does not meet the requirements for forgiveness, the loan is repayable over a five-year period and will bear interest at 1%.

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, 2020 and 2019, services provided and recognized as expense by the School under the Agreement amounted to \$3,818,231 and \$3,070,455, respectively.

As of June 30, 2020 and 2019, amounts due to DREAM from the School amounted to \$347,582 and \$381,975, respectively.

The School received the use of facilities without charge from DREAM, which was valued at approximately \$1,750,000 for the years ended June 30, 2020 and 2019, respectively.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 – RELATED-PARTY TRANSACTIONS (Continued)

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 \$1,309,500 and \$1,265,500 for the years ended June 30, 2020 and 2019, respectively. Approximate future annual minimum rentals related to the lease are as follows for the years ended subsequent to June 30, 2020:

2021	\$	1,008,000
2022		1,113,000
2023		<u>189,000</u>
	\$	<u><u>2,310,000</u></u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

- A. The School believes it had no uncertain tax positions as of June 30, 2020 and 2019, 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.
- C. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the School’s business and financial results will depend on future developments, including the duration and spread of the outbreak. Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, the School is currently unable to fully determine the extent of COVID-19’s impact on its business in future periods. The School’s performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recoveries in the United States. The School continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position and results of operations.
- D. The School had a line of credit with a bank, which has a variable interest equal to prime plus 1.5 percent. The line of credit expires on February 26, 2021.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Time restricted	\$ <u>719,812</u>	\$ <u>1,087,250</u>
	\$ <u><u>719,812</u></u>	\$ <u><u>1,087,250</u></u>

During the years ended June 30, 2020 and 2019, the School met donor restrictions and released net assets with donor restrictions of \$567,438 and \$419,750, respectively.

**DREAM CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 – 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 76% and 68% of total revenue for each of the years ended June 30, 2020, and 2019, 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, 2020, and 2019, there was approximately \$4,022,000 and \$1,908,000, respectively, of cash and cash equivalents held by two banks that exceeded FDIC limits.

NOTE 12 – 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, 2020 and 2019, the School contributed a 4% match for qualified participating staff members with one or more years of service. Employer contributions totaled \$163,973 and \$140,099 for the years ended June 30, 2020 and 2019, respectively.

NOTE 13 – PROGRAM RELATED INVESTMENT PAYABLE

On May 4, 2020, the School obtained a program related investment in the amount of \$150,000 from the Charter School Growth Fund. The balance is due back on November 30, 2021 and bears no interest.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the statement of financial position through October 30, 2020, the date the financial statements were available to be issued.