

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



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

Years Ended June 30, 2018 and 2017

**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  
WITH SUPPLEMENTARY INFORMATION  
(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2018 AND 2017**

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## 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, 2018 and 2017, 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 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, 2018 and 2017, 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 Matters**

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 15 and 16) 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.

*Marks Paneth LLP*

New York, NY  
November 14, 2018

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2D and 9)	\$ 4,815,798	\$ 3,324,803
Restricted cash (Note 2E)	1,478,185	2,079,652
Investments (Notes 2F and 3)	3,291,805	3,564,828
Contributions receivable, net (Notes 2G and 4)	5,081,200	6,194,281
Government grants receivable (Note 2G)	236,994	162,420
Due from institutional partner (Note 7)	49,320	308,013
Prepaid expenses and other assets	256,767	243,287
Property and equipment, net (Notes 2H and 5)	64,630,549	50,281,599
<b>TOTAL ASSETS</b>	<b>\$ 79,840,618</b>	<b>\$ 66,158,883</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,022,056	\$ 1,027,957
Deferred revenue and refundable advances (Note 2J)	-	11,865
NMTC loans payable (Note 6)	25,463,427	25,448,217
<b>TOTAL LIABILITIES</b>	<b>26,485,483</b>	<b>26,488,039</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 8)		
<b>NET ASSETS</b> (Note 2C)		
Unrestricted:		
Operating	9,089,935	6,737,055
Net investment in property and equipment	40,645,307	26,913,034
Total unrestricted	49,735,242	33,650,089
Temporarily restricted (Note 10)	3,619,893	6,020,755
<b>TOTAL NET ASSETS</b>	<b>53,355,135</b>	<b>39,670,844</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 79,840,618</b>	<b>\$ 66,158,883</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, 2018 AND 2017**

	For the Year Ended June 30, 2018			For the Year Ended June 30, 2017		
	Unrestricted	Temporarily Restricted	Total 2018	Unrestricted	Temporarily Restricted	Total 2017
<b>OPERATING REVENUE AND SUPPORT</b> (Note 2O):						
Contributions (Note 2I)	\$ 4,252,709	\$ 973,134	\$ 5,225,843	\$ 7,616,296	\$ 4,452,000	\$ 12,068,296
Contributions - capital funding (Note 2I)	-	401,942	401,942	-	716,227	716,227
Government grants (Note 2J)	1,074,671	-	1,074,671	626,085	-	626,085
Government grants - capital funding (Notes 2J and 5)	901,600	-	901,600	403,070	-	403,070
Special event revenue (net of direct expenses of \$492,317 and \$587,942, respectively) (Note 2I)	6,771,214	-	6,771,214	5,267,293	-	5,267,293
Contractual services (Notes 2K and 7)	1,842,165	-	1,842,165	1,657,105	-	1,657,105
Donated services (Note 2L)	1,164,255	-	1,164,255	1,538,742	-	1,538,742
Investment activity (Notes 2F and 3)	15,726	-	15,726	(3,929)	-	(3,929)
Other income	43,969	-	43,969	23,436	-	23,436
Net assets released from restrictions (Note 10)	3,775,938	(3,775,938)	-	4,453,781	(4,453,781)	-
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>19,842,247</u>	<u>(2,400,862)</u>	<u>17,441,385</u>	<u>21,581,879</u>	<u>714,446</u>	<u>22,296,325</u>
<b>OPERATING EXPENSES</b> (Note 2M)						
<b>Program Services</b>	13,477,549	-	13,477,549	12,635,234	-	12,635,234
<b>Supporting Services:</b>						
Management and general	3,584,150	-	3,584,150	2,669,936	-	2,669,936
Fundraising	1,695,395	-	1,695,395	1,406,029	-	1,406,029
<b>Total Supporting Services</b>	<u>5,279,545</u>	<u>-</u>	<u>5,279,545</u>	<u>4,075,965</u>	<u>-</u>	<u>4,075,965</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>18,757,094</u>	<u>-</u>	<u>18,757,094</u>	<u>16,711,199</u>	<u>-</u>	<u>16,711,199</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	1,085,153	(2,400,862)	(1,315,709)	4,870,680	714,446	5,585,126
<b>NON-OPERATING ACTIVITIES</b>						
Donated property (Note 5)	15,000,000	-	15,000,000	-	-	-
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN TOTAL NET ASSETS</b>	16,085,153	(2,400,862)	13,684,291	4,870,680	714,446	5,585,126
Net assets - beginning of year	<u>33,650,089</u>	<u>6,020,755</u>	<u>39,670,844</u>	<u>28,779,409</u>	<u>5,306,309</u>	<u>34,085,718</u>
<b>NET ASSETS - END OF YEAR</b>	<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>

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**  
(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	<u>Supporting Services</u>			<u>Total Supporting Services</u>	<u>Total 2018</u>	<u>Total 2017</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>			
Salaries	\$ 6,728,602	\$ 1,009,805	\$ 974,189	\$ 1,983,994	\$ 8,712,596	\$ 8,321,477
Payroll taxes and employee benefits (Note 11)	<u>1,169,963</u>	<u>177,897</u>	<u>199,886</u>	<u>377,783</u>	<u>1,547,746</u>	<u>1,629,729</u>
<b>Total salaries and related costs</b>	7,898,565	1,187,702	1,174,075	2,361,777	10,260,342	9,951,206
Instructors and tutors	65,851	-	-	-	65,851	31,148
Scholarships and stipends	93,557	-	-	-	93,557	123,288
Baseball, umpires, equipment and fees	183,636	-	14,419	14,419	198,055	194,837
Youth program food and events	149,909	-	-	-	149,909	122,281
Youth program fees and admissions	114,384	-	-	-	114,384	123,589
Youth program transportation	187,054	-	-	-	187,054	140,298
Youth program supplies	110,980	-	-	-	110,980	93,237
Occupancy (Note 9)	383,905	25,662	14,031	39,693	423,598	439,662
Telephone and utilities	432,396	54,169	34,368	88,537	520,933	364,793
Office cleaning and maintenance	304,442	35,560	17,780	53,340	357,782	233,678
Information technology	517,262	62,784	59,319	122,103	639,365	611,531
Professional fees (Note 2L)	880,258	1,680,354	65,730	1,746,084	2,626,342	1,696,245
Insurance	150,422	65,246	1,229	66,475	216,897	152,772
Office supplies	126,382	12,059	12,072	24,131	150,513	147,306
Professional development	58,077	11,425	11,255	22,680	80,757	77,728
Communication and outreach	97,200	10,340	10,518	20,858	118,058	92,127
Postage and shipping	14,190	1,727	8,855	10,582	24,772	22,044
Dues and subscriptions	67,917	23,686	54,400	78,086	146,003	122,739
Interest, bank and credit card fees (Note 7)	386,897	17,236	47,803	65,039	451,936	569,835
Grants	36,191	-	-	-	36,191	39,924
Travel and entertainment	82,387	41,382	22,001	63,383	145,770	131,458
Depreciation and amortization (Note 5)	1,115,572	302,895	-	302,895	1,418,467	1,162,999
Other	<u>20,115</u>	<u>51,923</u>	<u>147,540</u>	<u>199,463</u>	<u>219,578</u>	<u>66,474</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>	<u>\$ 16,711,199</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, 2017**

	Supporting Services			Total Supporting Services	Total 2017
	Program Services	Management and General	Fundraising		
Salaries	\$ 6,846,069	\$ 584,215	\$ 891,193	\$ 1,475,408	\$ 8,321,477
Payroll taxes and employee benefits (Note 11)	<u>1,270,504</u>	<u>161,423</u>	<u>197,802</u>	<u>359,225</u>	<u>1,629,729</u>
<b>Total salaries and related costs</b>	8,116,573	745,638	1,088,995	1,834,633	9,951,206
Instructors and tutors	31,148	-	-	-	31,148
Scholarships and stipends	123,288	-	-	-	123,288
Baseball, umpires, equipment and fees	194,837	-	-	-	194,837
Youth program food and events	122,281	-	-	-	122,281
Youth program fees and admissions	123,589	-	-	-	123,589
Youth program transportation	140,298	-	-	-	140,298
Youth program supplies	93,237	-	-	-	93,237
Occupancy (Note 9)	400,650	26,008	13,004	39,012	439,662
Telephone and utilities	307,730	32,374	24,689	57,063	364,793
Office cleaning and maintenance	198,785	23,262	11,631	34,893	233,678
Information technology	524,539	35,284	51,708	86,992	611,531
Professional fees (Note 2L)	130,338	1,549,248	16,659	1,565,907	1,696,245
Insurance	133,297	17,701	1,774	19,475	152,772
Office supplies	91,323	5,272	50,711	55,983	147,306
Professional development	65,156	3,344	9,228	12,572	77,728
Communication and outreach	79,819	3,969	8,339	12,308	92,127
Postage and shipping	13,933	1,258	6,853	8,111	22,044
Dues and subscriptions	95,637	15,680	11,422	27,102	122,739
Interest, bank and credit card fees (Note 7)	455,461	31,447	82,927	114,374	569,835
Grants	39,924	-	-	-	39,924
Travel and entertainment	63,045	40,435	27,978	68,413	131,458
Depreciation and amortization (Note 5)	1,047,226	115,773	-	115,773	1,162,999
Other	<u>43,120</u>	<u>23,243</u>	<u>111</u>	<u>23,354</u>	<u>66,474</u>
<b>TOTAL EXPENSES</b>	<u>\$12,635,234</u>	<u>\$ 2,669,936</u>	<u>\$ 1,406,029</u>	<u>\$ 4,075,965</u>	<u>\$16,711,199</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, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$13,684,291	\$ 5,585,126
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investments	20,178	10,506
Realized loss	5,243	-
Amortization of discount on contributions receivable	-	(46,375)
Value of contributed property	(15,000,000)	-
Noncash interest expense	15,210	15,871
Depreciation and amortization	1,418,467	1,162,999
Subtotal	143,389	6,728,127
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Contributions receivable	1,113,081	679,213
Government grants receivable	(74,574)	585,248
Due to (from) institutional partner	258,693	(332,573)
Prepaid expenses and other assets	(13,480)	172,121
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(5,901)	104,974
Deferred revenue and refundable advances	(11,865)	(78,328)
<b>Net Cash Provided by Operating Activities</b>	<b>1,409,343</b>	<b>7,858,782</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,179,306)	(3,575,334)
Sales of investments	1,426,908	-
Purchases of property and equipment	(767,417)	(2,132,610)
<b>Net Cash Used in Investing Activities</b>	<b>(519,815)</b>	<b>(5,707,944)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Releases from restricted cash	601,467	924,160
Proceeds from loan payable	-	-
Repayments of loan payable	-	(1,300,000)
Proceeds from line of credit	-	500,000
Repayment of line of credit	-	(500,000)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>601,467</b>	<b>(375,840)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,490,995	1,774,998
Cash and cash equivalents - beginning of year	3,324,803	1,549,805
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 4,815,798</b>	<b>\$ 3,324,803</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during year for interest	\$ 185,735	\$ 260,797

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, 2018 AND 2017**

**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 and South Bronx 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.

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

- A. ***Basis of Consolidation*** - The consolidated financial statements include the activities of DREAM, HRHB, HRDP, and DREAM on 125 (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 maintains its net assets under the following three classes:
- Unrestricted – represents net assets not subject to donor-imposed stipulations and that have no time restrictions. Such resources are available for support of the Organization’s operations over which the Board of Directors has discretionary control.
  - Temporarily Restricted – represents net assets subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization. When such restrictions end or are fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

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

- Permanently Restricted – net assets with donor-imposed restrictions on the purpose of the gifts specifying they be maintained in perpetuity. As of June 30, 2018 and 2017, the Organization had no permanently restricted net assets.
- 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 3.
- 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, 2018 and 2017.
- H. **Property and Equipment** - Property and equipment are stated at cost less accumulated depreciation. 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 unrestricted, temporarily restricted, or permanently restricted net assets, 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 \$1,164,255 and \$1,538,742 for the years ended June 30, 2018 and 2017, 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.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**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.

**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of U.S. treasury bills, which amounted to \$3,291,805 and \$3,564,828 as of June 30, 2018 and 2017, respectively.

Investment activity consisted of the following for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Unrealized loss	\$ (20,178)	\$ (10,506)
Realized loss	(5,243)	-
Interest	<u>41,147</u>	<u>6,577</u>
	<u>\$ 15,726</u>	<u>\$ (3,929)</u>

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, 2018 and 2017, there were no transfers.

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

	<u>Level 1</u>	<u>Total</u>
Treasury bills	<u>\$ 3,291,805</u>	<u>\$ 3,291,805</u>
	<u>\$ 3,291,805</u>	<u>\$ 3,291,805</u>

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Investments carried at fair value as of June 30, 2017 are classified in the table as follows:

	<u>Level 1</u>	<u>Total</u>
Treasury bills	\$ 3,564,828	\$ 3,564,828
	<u>\$ 3,564,828</u>	<u>\$ 3,564,828</u>

**NOTE 4 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Amounts due in less than one year	\$ 3,380,582	\$ 3,528,402
Amounts due in one to five years	1,763,334	2,536,667
Amounts due in more than five years	-	250,000
	<u>5,143,916</u>	<u>6,315,069</u>
Less discount to present value at 2%	<u>(62,716)</u>	<u>(120,788)</u>
	<u>\$ 5,081,200</u>	<u>\$ 6,194,281</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following as of June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>Useful Life</u>
Land	\$ 14,000,000	\$ 2,000,000	
Building	3,000,000	-	30 years
Leasehold improvements	2,300,957	1,206,124	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	1,015,595	20 years
Leasehold improvements - School (B)	<u>46,311,584</u>	<u>46,639,562</u>	50 years
	70,953,054	55,185,637	
Less: accumulated depreciation	<u>(6,322,505)</u>	<u>(4,904,038)</u>	
	<u>\$ 64,630,549</u>	<u>\$ 50,281,599</u>	

Depreciation and amortization expense amounted to \$1,418,467 and \$1,162,999 for the years ended June 30, 2018 and 2017, 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 2019. 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.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 5 – PROPERTY AND EQUIPMENT (Continued)**

(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.

**NOTE 6 – 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 unrestricted grants 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:

	<u>2018</u>	<u>2017</u>	Interest Rate
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>(746,573)</u>	<u>(761,783)</u>	
	<u>\$25,463,427</u>	<u>\$ 25,448,217</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 \$198,347 and \$183,186 for the years ended June 30, 2018 and 2017, respectively. Amortization of deferred financing costs amounted to \$15,210 and \$15,871 for the years ended June 30, 2018 and 2017, respectively, and is included in interest, bank, and credit card fees on the accompanying consolidated statements of functional expenses.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The Organization has an Institutional Partnership Agreement (the “Agreement”) with the School, which is a related party by nature of 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, 2018 and 2017, services provided and recognized as revenue by the Organization under the Agreement amounted to \$1,842,165 and \$1,657,105, respectively.

As of June 30, 2018, amounts due to the Organization from the School amounted to \$43,691. As of June 30, 2017, amounts due from the School to the Organization amounted to \$306,763.

The Organization made grants to the School totaling approximately \$796,000 and \$0 during the years ended June 30, 2018 and 2017, respectively. The Organization also provided the School with the use of facilities without charge during the years ended June 30, 2018 and 2017.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 7 – RELATED PARTY TRANSACTIONS (Continued)**

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 terms of the master lease and the sublease are substantially identical. The School pays the lease directly and the Organization does not derive any economic benefit from the space.

**NOTE 8 – 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, 2018:

2019	\$	1,196,000
2020		,1,139,000
2021		1,047,000
2022		1,117,000
2023		190,000
Thereafter		-
		<u>\$ 4,689,000</u>

Rent expense amounted to \$423,598 and \$439,662 for the years ended June 30, 2018 and 2017, respectively.

B. The Organization believes it had no uncertain tax positions as of June 30, 2018 and 2017, 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. During the year ended June 30, 2018, the Organization did not utilize the line of credit. During the year ended June 30, 2017, DREAM drew down \$500,000, all of which was repaid during the year.

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 9 – 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, 2018 and 2017, cash and cash equivalents held in banks exceeded FDIC limits by approximately \$6 million and \$1.6 million, respectively.

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS**

As of June 30, 2018 and 2017, temporarily restricted net assets were restricted for the following purposes:

	2018	2017
Capital Campaign	\$ 150,000	\$ 200,000
South Bronx Expansion	-	75,000
College Success Scholarships	-	36,000
College Prep	75,000	150,000
Project Coach	-	160,000
After School	45,834	95,834
Real Kids Replication	637,500	850,000
Time restricted	<u>2,711,559</u>	<u>4,453,921</u>
	<u>\$ 3,619,893</u>	<u>\$ 6,020,755</u>

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS (Continued)**

Net assets were released from donor restrictions from the passage of time or by incurring expenses in the amount of \$3,775,938 and \$4,453,781 for the years ended June 30, 2018 and 2017.

**NOTE 11 – 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 \$134,000 and \$136,000 to the plan for the years ended June 30, 2018 and 2017, respectively.

**NOTE 12 – SUBSEQUENT EVENTS**

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through November 14, 2018, 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, 2018**

	<u>DREAM</u>	<u>HRBI DREAM Partners, LLC</u>	<u>HRBI Home Base, LLC</u>	<u>Dream on 125 LLC</u>	<u>Eliminations</u>	<u>Total 2018</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,814,161	\$ 372	\$ 1,265	\$ -	\$ -	\$ 4,815,798
Restricted cash	530,367	947,818	-	-	-	1,478,185
Investments	3,291,805	-	-	-	-	3,291,805
Contributions receivable, net	5,081,200	-	-	-	-	5,081,200
Government grants receivable	236,994	-	-	-	-	236,994
Due from institutional partner	49,320	-	-	-	-	49,320
Prepaid expenses and other assets	256,719	48	-	-	-	256,767
Investment in subsidiary	35,966,663	-	-	-	(35,966,663)	-
Property and equipment, net	<u>4,034,272</u>	<u>42,868,979</u>	<u>2,727,298</u>	<u>15,000,000</u>	<u>-</u>	<u>64,630,549</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 54,261,501</u></b>	<b><u>\$ 43,817,217</u></b>	<b><u>\$ 2,728,563</u></b>	<b><u>\$ 15,000,000</u></b>	<b><u>\$ (35,966,663)</u></b>	<b><u>\$ 79,840,618</u></b>
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	\$ 906,366	\$ 115,690	\$ -	\$ -	\$ -	\$ 1,022,056
NMTC loans payable	<u>-</u>	<u>25,463,427</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,463,427</u>
<b>TOTAL LIABILITIES</b>	<b><u>906,366</u></b>	<b><u>25,579,117</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>26,485,483</u></b>
<b>NET ASSETS</b>						
Total unrestricted	49,735,242	18,238,100	2,728,563	15,000,000	(35,966,663)	49,735,242
Temporarily restricted	<u>3,619,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,619,893</u>
<b>TOTAL NET ASSETS</b>	<b><u>53,355,135</u></b>	<b><u>18,238,100</u></b>	<b><u>2,728,563</u></b>	<b><u>15,000,000</u></b>	<b><u>(35,966,663)</u></b>	<b><u>53,355,135</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 54,261,501</u></b>	<b><u>\$ 43,817,217</u></b>	<b><u>\$ 2,728,563</u></b>	<b><u>\$ 15,000,000</u></b>	<b><u>\$ (35,966,663)</u></b>	<b><u>\$ 79,840,618</u></b>

See independent auditors' report.

**HARLEM RBI, INC. d/b/a DREAM AND AFFILIATES**  
**CONSOLIDATING SCHEDULE OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	DREAM			HRBI DREAM Partners, LLC Unrestricted	HRBI Home Base, LLC Unrestricted	Dream on 125 LLC	Eliminations	Consolidated Total		
	Unrestricted	Temporarily Restricted	Total					Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT:</b>										
Contributions	\$ 4,252,709	\$ 973,134	\$ 5,225,843	\$ -	\$ -	\$ -	\$ -	\$ 4,252,709	\$ 973,134	\$ 5,225,843
Contributions - capital funding	-	401,942	401,942	-	-	-	-	-	401,942	401,942
Government grants	1,074,671	-	1,074,671	-	-	-	-	1,074,671	-	1,074,671
Government grants - capital funding	-	-	-	901,600	-	-	-	901,600	-	901,600
Special event revenue net of direct expenses	6,771,214	-	6,771,214	-	-	-	-	6,771,214	-	6,771,214
Contractual services	1,842,165	-	1,842,165	-	-	-	-	1,842,165	-	1,842,165
Donated services	1,164,255	-	1,164,255	-	-	-	-	1,164,255	-	1,164,255
Investment return	13,542	-	13,542	2,184	-	-	-	15,726	-	15,726
Gain (loss) from subsidiaries	7,264,628	-	7,264,628	-	-	-	(7,264,628)	-	-	-
Other income	43,969	-	43,969	-	-	-	-	43,969	-	43,969
Net assets released from restrictions	3,775,938	(3,775,938)	-	-	-	-	-	3,775,938	(3,775,938)	-
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>	<u>26,203,091</u>	<u>(2,400,862)</u>	<u>23,802,229</u>	<u>903,784</u>	<u>-</u>	<u>-</u>	<u>(7,264,628)</u>	<u>19,842,247</u>	<u>(2,400,862)</u>	<u>17,441,385</u>
<b>OPERATING EXPENSES</b>										
<b>Program Services</b>	<u>12,181,909</u>	<u>-</u>	<u>12,181,909</u>	<u>1,225,137</u>	<u>70,503</u>	<u>-</u>	<u>-</u>	<u>13,477,549</u>	<u>-</u>	<u>13,477,549</u>
<b>Supporting Services:</b>										
Management and general	3,584,150	-	3,584,150	-	-	-	-	3,584,150	-	3,584,150
Fundraising	1,695,395	-	1,695,395	-	-	-	-	1,695,395	-	1,695,395
<b>Total Supporting Services</b>	<u>5,279,545</u>	<u>-</u>	<u>5,279,545</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,279,545</u>	<u>-</u>	<u>5,279,545</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>17,461,454</u>	<u>-</u>	<u>17,461,454</u>	<u>1,225,137</u>	<u>70,503</u>	<u>-</u>	<u>-</u>	<u>18,757,094</u>	<u>-</u>	<u>18,757,094</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	8,741,637	(2,400,862)	6,340,775	(321,353)	(70,503)	-	(7,264,628)	1,085,153	(2,400,862)	(1,315,709)
<b>NON-OPERATING ACTIVITIES</b>										
Donated property	-	-	-	-	-	15,000,000	-	15,000,000	-	15,000,000
Capital contributions (withdrawals)	7,343,516	-	7,343,516	(9,494,333)	2,150,817	-	-	-	-	-
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<u>7,343,516</u>	<u>-</u>	<u>7,343,516</u>	<u>(9,494,333)</u>	<u>2,150,817</u>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>	<u>-</u>	<u>15,000,000</u>
<b>CHANGE IN TOTAL NET ASSETS</b>	16,085,153	(2,400,862)	13,684,291	(9,815,686)	2,080,314	15,000,000	(7,264,628)	16,085,153	(2,400,862)	13,684,291
Net assets - beginning of year	33,650,089	6,020,755	39,670,844	28,053,786	648,249	-	(28,702,035)	33,650,089	6,020,755	39,670,844
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 49,735,242</u>	<u>\$ 3,619,893</u>	<u>\$ 53,355,135</u>	<u>\$ 18,238,100</u>	<u>\$ 2,728,563</u>	<u>\$ 15,000,000</u>	<u>\$ (35,966,663)</u>	<u>\$ 49,735,242</u>	<u>\$ 3,619,893</u>	<u>\$ 53,355,135</u>

See independent auditors' report.