

# U.S. Dream Academy, Inc.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2016 and 2015



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**U.S. Dream Academy, Inc.**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
U.S. Dream Academy, Inc.  
Columbia, Maryland

We have audited the accompanying financial statements of U.S. Dream Academy, Inc. (the "Academy"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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. 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 auditors' 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 Academy'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 Academy'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 U.S. Dream Academy, Inc. as of December 31, 2016 and 2015, 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.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are also presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

*Carr, Riggs & Ingram, L.L.C.*

Houston, Texas  
July 14, 2017

**U.S. Dream Academy, Inc.**  
**Statements of Financial Position**

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 562,081	\$ 304,759
Grants receivable	237,841	83,379
Pledges receivable, net	314,286	984,158
Prepaid expenses	66,786	50,166
Inventory	13,380	19,078
Deposits and other assets	8,768	7,557
Property and equipment, net	1,020	1,902
<b>Total assets</b>	<b>\$ 1,204,162</b>	<b>\$ 1,450,999</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 47,013	\$ 65,036
Payroll related liabilities	24,629	26,488
Deferred revenue	201,129	211,207
Line of credit	-	58,265
<b>Total liabilities</b>	<b>272,771</b>	<b>360,996</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Unrestricted	745,391	994,809
Temporarily restricted	186,000	95,194
<b>Total net assets</b>	<b>931,391</b>	<b>1,090,003</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,204,162</b>	<b>\$ 1,450,999</b>

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

**U.S. Dream Academy, Inc.**  
**Statements of Activities and Changes in Net Assets**

*For the years ended December 31,*

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Support and income</b>						
Government and local grants	\$ 755,695	\$ -	\$ 755,695	\$ 638,173	\$ -	\$ 638,173
Contributions	1,182,973	168,960	1,351,933	1,705,810	21,017	1,726,827
Special event, less direct donor benefit costs of \$64,500 for 2016 and \$66,000 for 2015, respectively	635,474	46,004	681,478	727,841	24,301	752,142
Publications and other	743	-	743	7,724	-	7,724
Investment income	309	-	309	32	-	32
<b>Total support and income</b>	<b>2,575,194</b>	<b>214,964</b>	<b>2,790,158</b>	<b>3,079,580</b>	<b>45,318</b>	<b>3,124,898</b>
Net assets released from restrictions	124,158	(124,158)	-	81,124	(81,124)	-
<b>Total support and income</b>	<b>2,699,352</b>	<b>90,806</b>	<b>2,790,158</b>	<b>3,160,704</b>	<b>(35,806)</b>	<b>3,124,898</b>
<b>Expenses</b>						
Learning centers	1,919,694	-	1,919,694	1,948,797	-	1,948,797
Management and general	446,558	-	446,558	363,806	-	363,806
Fundraising	582,518	-	582,518	591,439	-	591,439
<b>Total expenses</b>	<b>2,948,770</b>	<b>-</b>	<b>2,948,770</b>	<b>2,904,042</b>	<b>-</b>	<b>2,904,042</b>
<b>Increase (decrease) in net assets</b>	<b>(249,418)</b>	<b>90,806</b>	<b>(158,612)</b>	<b>256,662</b>	<b>(35,806)</b>	<b>220,856</b>
<b>Net assets at beginning of year</b>	<b>994,809</b>	<b>95,194</b>	<b>1,090,003</b>	<b>738,147</b>	<b>131,000</b>	<b>869,147</b>
<b>Net assets at end of year</b>	<b>\$ 745,391</b>	<b>\$ 186,000</b>	<b>\$ 931,391</b>	<b>\$ 994,809</b>	<b>\$ 95,194</b>	<b>\$ 1,090,003</b>

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

**U.S. Dream Academy, Inc.**  
**Statements of Cash Flows**

<i>For the years ended December 31,</i>	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>		
Change in net assets	\$ (158,612)	\$ 220,856
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Bad debt expense	32,750	22,500
Change in allowance for bad debt	85,000	-
Depreciation	882	10,731
Change in operating assets and liabilities		
Grants receivable	(154,462)	72,481
Pledges receivable, net	552,122	(703,954)
Prepaid expenses	(16,620)	(21,027)
Inventory	5,698	45
Deposits and other assets	(1,211)	3,210
Accounts payable and accrued expenses	(18,023)	(30,440)
Payroll related liabilities	(1,859)	8,882
Deferred revenue	(10,078)	87,023
Net cash provided by (used in) operating activities	<b>315,587</b>	<b>(329,693)</b>
<b>Financing activities</b>		
Net repayments on line of credit	(58,265)	(6,321)
<b>Net change in cash and cash equivalents</b>	<b>257,322</b>	<b>(336,014)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>304,759</b>	<b>640,773</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 562,081</b>	<b>\$ 304,759</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 4,343	\$ 6,262

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



## U.S. Dream Academy, Inc. Notes to the Financial Statements

### **NOTE 1: ORGANIZATION**

U.S. Dream Academy, Inc. (the “Academy”) was incorporated in the state of Florida on June 5, 1998 to develop and provide after-school learning centers that promote and assist positive youth development for students of incarcerated parents and children falling behind in school. The Academy is currently operating in seven cities.

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of Presentation***

The Academy’s financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Academy had no permanently restricted net assets at December 31, 2016 and 2015.

#### ***Cash Equivalents***

The Academy considers all highly liquid investments with original maturities of three months or less at date of purchase to be cash equivalents.

#### ***Cash Concentration***

The Academy maintains cash accounts at various banks, which at times, may exceed the Federal Deposit Insurance Corporation’s limit. The Board has not experienced any losses from maintaining cash accounts in excess of the federally insured limit. Management believes that it is not exposed to any significant credit risk on cash accounts, due to the financial strength of the financial institutions where deposits are held.

#### ***Grants and Pledges Receivable***

The Academy considers all grants receivables to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. Receivable amounts are expected to be collected in 2017. As of December 31, 2016, pledges receivable is reported net of an allowance of \$85,000.

As of December 31, 2016 and 2015, one donor accounted for 86% of pledges receivable and four donors accounted for 85% of pledges receivable, respectively.

#### ***Inventory***

Inventory is stated at the lower of cost, determined by the first-in, first-out method, or market. The inventory consists of compact discs, DVDs and books featuring the Academy’s founder.

**U.S. Dream Academy, Inc.**  
**Notes to the Financial Statements**

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

***Furniture and Equipment***

Furniture and equipment are recorded at cost if purchased, or in the case of donated assets, at the estimated fair market value at the date of donation. The Academy capitalizes all expenditures for furniture and equipment in excess of \$1,500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from three to seven years. Routine maintenance and repair costs are charged to expense in the year incurred.

***Contributions***

The Academy's contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor and is to be used in future periods is reported as an increase in temporarily restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

For the years ended December 31, 2016 and 2015, one donor and three donors accounted for 46% and 57% of contributions, respectively.

***Government and Local Grants***

Government grants are recognized when the related services are provided. Advances received from grants in excess of reimbursable costs incurred are recorded as refundable advances.

***Deferred Revenue***

Contributions received for the benefit of fundraising events and other revenues relating to periods after December 31, have been deferred to the subsequent fiscal year.

***Donated Services***

The Academy recognizes donated services at their fair value in the period received if the services received create or enhance nonfinancial assets that require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of unpaid volunteers make significant contributions of their time to develop the Academy's programs. The value of the contributed time is not reflected in these statements because it does not require a specialized skill or create or enhance a nonfinancial asset. Donated rent, donated professional services (travel), and donated snacks however, are reflected in the financial statements as contribution income and program expense at the estimated fair value. The Academy recognized \$118,648 and \$123,269 of in-kind rent for its learning centers for the years ended December 31, 2016 and 2015, respectively. Additionally, the Academy recognized \$21,200 and \$24,800 of travel expenses and \$96,630 and \$87,520 of donated snacks, respectively, for the years ended December 31, 2016 and 2015.



## U.S. Dream Academy, Inc. Notes to the Financial Statements

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### ***Functional Allocation of Expenses***

The costs of providing various program and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services directly benefited, or upon management's estimates of the proportion of these costs applicable to each function.

#### ***Income Taxes***

The Academy is a non-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Academy was granted an individual ruling under the same section and has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and, as such, qualifies for the charitable contribution deduction for individual donors.

The Academy accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of December 31, 2016 and 2015, management believes there were no uncertain tax positions.

#### ***Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could differ from those estimates that were used. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of grants and pledges receivable and allocation of expense by function. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

#### ***Fair Value Considerations***

The Academy uses fair value to measure financial assets and liabilities and certain nonfinancial assets and liabilities. The Academy's financial instruments (primarily cash and cash equivalents, payables and accruals) are carried in the accompanying statements of financial position at amounts which approximate fair value.

#### ***Subsequent Events***

The Academy has evaluated subsequent events through the date the financial statements were available for issuance on July 14, 2017. No matters were identified affecting the accompanying financial statements or related disclosures.

**U.S. Dream Academy, Inc.**  
**Notes to the Financial Statements**

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

***Recent Financial Accounting Pronouncement***

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Academy will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Academy's financial statements.

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Computers and equipment	\$ 323,180	\$ 323,180
Office furniture	33,028	33,028
	<b>356,208</b>	356,208
Accumulated depreciation	<b>(355,188)</b>	(354,306)
	<b>\$ 1,020</b>	\$ 1,902

Depreciation expense for the years ended December 31, 2016 and 2015 totaled \$882 and \$10,731, respectively.

**NOTE 4: LINE OF CREDIT AGREEMENT**

During 2012, the Academy established a line of credit agreement with a bank which provides for maximum borrowings of \$100,000. The annual interest rate is 10% and is payable in monthly installments. As of December 31, 2016 there was no outstanding balance on the line of credit. At December 31, 2015, there was an outstanding balance of \$58,265.

Interest expense totaled \$4,343 and \$6,262 for the years ended December 31, 2016 and 2015, respectively.

**U.S. Dream Academy, Inc.**  
**Notes to the Financial Statements**

**NOTE 5: NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets totaling \$124,158 and \$81,124 were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors for the years ended December 31, 2016 and 2015, respectively.

**NOTE 6: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for use in subsequent years' activities for the following centers:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
Charlotte, North Carolina	\$ 81,000	\$ 81,000
Indianapolis, Indiana	-	14,194
DreamSmart: Workforce Empowerment Program	<b>105,000</b>	-
	<b>\$ 186,000</b>	<b>\$ 95,194</b>

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

The Academy receives funding through contracts and grants with departments and agencies of the federal government that are subject to compliance audits by the grantors or their representatives. The disallowance of costs could adversely affect the Academy's financial statements by reducing estimated reimbursable costs and, thus, grant revenue. Management believes, however, that adjustments by government auditors, if any, will not be material to the financial statements.

**NOTE 8: RETIREMENT PLAN**

The Academy maintains a defined contribution retirement plan as defined under Section 401(k) of the U.S. Internal Revenue Code offered to substantially all employees. During 2008, the Academy organized and adopted a defined contribution retirement plan as defined under Section 403(b) of the U.S. Internal Revenue Code. Both plans are funded solely by employee contributions to the plans, pursuant to a salary reduction agreement.

**NOTE 9: OPERATING LEASES**

The Academy leases office space in Columbia, Maryland for its business office and headquarters expiring in December 2019. Future minimum lease payments for the noncancellable lease are \$83,416, \$87,587, and \$91,966 for the years ending December 31, 2017, 2018 and 2019, respectively.

Rent expense for the Academy's headquarters and its other locations that house its learning centers, excluding in-kind rent (Note 2), was approximately \$80,000 and \$78,000 for the years ended December 31, 2016 and 2015, respectively.

## **SUPPLEMENTARY INFORMATION**

**U.S. Dream Academy, Inc.**  
**Schedule of Functional Expenses**

<i>For the year ended December 31, 2016</i>	Learning Centers	Management and General	Fundraising	Total
Salaries and benefits	\$ 1,045,428	\$ 112,807	\$ 281,937	\$ 1,440,172
Payroll taxes	81,211	6,756	18,118	106,085
Program expenses	353,016	-	-	353,016
General office expenses	99,854	76,315	23,724	199,893
Rent	184,693	9,527	3,977	198,197
Utilities	24,402	6,639	3,056	34,097
Special events fundraising	-	-	235,056	235,056
Professional fees	131,090	115,882	16,650	263,622
Provision for bad debts	-	117,750	-	117,750
Depreciation	-	882	-	882
	<b>\$ 1,919,694</b>	<b>\$ 446,558</b>	<b>\$ 582,518</b>	<b>\$ 2,948,770</b>

*See independent auditors' report.*

**U.S. Dream Academy, Inc.**  
**Schedule of Functional Expenses**

<i>For the year ended December 31, 2015</i>	Learning Centers	Management and General	Fundraising	Total
Salaries and benefits	\$ 1,093,051	\$ 129,662	\$ 245,926	\$ 1,468,639
Payroll taxes	79,659	7,441	19,279	106,379
Program expenses	374,505	-	-	374,505
General office expenses	78,019	72,857	19,623	170,499
Rent	187,384	8,953	3,846	200,183
Utilities	27,316	3,814	1,639	32,769
Special events fundraising	-	-	262,031	262,031
Professional fees	108,863	107,848	39,095	255,806
Provision for bad debts	-	22,500	-	22,500
Depreciation	-	10,731	-	10,731
	<b>\$ 1,948,797</b>	<b>\$ 363,806</b>	<b>\$ 591,439</b>	<b>\$ 2,904,042</b>

*See independent auditors' report.*