



Financial Statements and Supplemental Schedule  
as of June 30, 2011 and for the Period From July  
1, 2010 (Commencement of Operations) Through  
June 30, 2011, and Independent Auditors' Reports



**BROOKLYN DREAMS  
CHARTER SCHOOL**

A PUBLIC CHARTER SCHOOL MANAGED BY NATIONAL HERITAGE ACADEMIES

# BROOKLYN DREAMS CHARTER SCHOOL

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Brooklyn Dreams Charter School  
Brooklyn, New York

We have audited the accompanying statement of financial position of Brooklyn Dreams Charter School (the "School") as of June 30, 2011, and the related statement of activities and change in net assets, and statement of cash flows for the period beginning July 1, 2010 (commencement of operations) through June 30, 2011. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on the respective 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 includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2011, and the change in its net assets and the cash flows for the period from July 1, 2010 (commencement of operations) through June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of the School's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School, taken as a whole. The supplemental schedule of functional expenses listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the School. This schedule is the responsibility of the management of the School. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Deloitte & Touche LLP*

October 19, 2011

# BROOKLYN DREAMS CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION JUNE 30, 2011

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### ASSETS

CASH	\$ 110,012
DUE FROM GOVERNMENTAL REVENUE SOURCES	<u>376,274</u>
TOTAL	<u>\$ 486,286</u>

### LIABILITIES AND NET ASSETS

#### LIABILITIES:

Deferred revenue	\$ 45,642
Contracted service fee payable	<u>405,644</u>

Total liabilities 451,286

NET ASSETS — Unrestricted 35,000

TOTAL \$ 486,286

See notes to financial statements.

## BROOKLYN DREAMS CHARTER SCHOOL

### STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

PERIOD FROM JULY 1, 2010 (COMMENCEMENT OF OPERATIONS) THROUGH JUNE 30, 2011

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REVENUES, GAINS AND OTHER SUPPORT:	
State aid	\$ 2,611,726
Other state sources	110,553
Federal sources	450,829
Local sources	95,703
Private sources	41,789
Private sources — National Heritage Academies, Inc.	<u>2,243,088</u>
 Total revenues, gains and other support	 5,553,688
 EXPENSES — Contracted service fee	 <u>5,518,688</u>
 CHANGE IN NET ASSETS	 35,000
 NET ASSETS:	
Beginning of period	<u>-</u>
 End of period	 <u>\$ 35,000</u>

See notes to financial statements.

## BROOKLYN DREAMS CHARTER SCHOOL

### STATEMENT OF CASH FLOWS

PERIOD FROM JULY 1, 2010 (COMMENCEMENT OF OPERATIONS) THROUGH JUNE 30, 2011

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CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
State aid	\$ 2,595,832
Other state sources	105,837
Federal sources	236,151
Private sources	42,148
Payments for services rendered	<u>(2,869,956)</u>
Net cash provided by operating activities	<u>110,012</u>
NET INCREASE IN CASH	110,012
CASH — Beginning of period	<u>-</u>
CASH — End of period	<u>\$ 110,012</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Change in net assets	\$ 35,000
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Change in due from governmental revenue sources	(376,274)
Change in deferred revenue	45,642
Change in contracted service fee payable	<u>405,644</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 110,012</u>
NON-CASH ACTIVITY:	
Contribution from National Heritage Academies, Inc.	<u>\$ 2,243,088</u>

See notes to financial statements.

# BROOKLYN DREAMS CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

PERIOD FROM JULY 1, 2010 (COMMENCEMENT OF OPERATIONS) THROUGH JUNE 30, 2011

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### 1. NATURE OF OPERATIONS

Brooklyn Dreams Charter School (the "School") is a public charter school as defined by Article 56 of the New York State Education Law which provides education based on rigorous teaching methods, parental involvement, student responsibility, and basic moral values. The School operates under a charter approved by the State University of New York, which is responsible for oversight of the School's operations. The charter expires March 3, 2015 and is subject to renewal. Management believes the charter will be renewed in the ordinary course of business. The School provides education, at no cost to the parent, to students in kindergarten through the eighth grade. Enrollment is open to all appropriately aged children without regard to gender, ethnic background, disability, and/or religious affiliation. The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

The School's primary source of revenue is provided by the State of New York and consists of an amount per student multiplied by weighted average student counts. The state revenue is recognized ratably over the school year and was funded through payments from July 2010 through May 2011.

The Board of Trustees of the School has entered into a management agreement (the "agreement") with National Heritage Academies, Inc. ("NHA") which requires NHA to provide administration, strategic planning and all labor, materials, equipment, and supervision necessary for the provision of educational services to students. As part of the consideration received under the agreement, NHA also provides the facility in which the School operates. The agreement will continue until termination or expiration of the charter, unless at least 90 days written notice of intent to terminate or renegotiate is given by either the School or NHA.

Under the terms of the agreement, NHA receives as remuneration for its services an amount equal to the total revenue received by the School from all revenue sources.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** — The financial statements have been prepared in accordance with Section 2851 of the Education Law of the State of New York which requires such statements to be prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America for not-for-profit organizations.

**Estimates** — The preparation of 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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash** — Cash as of June 30, 2011, represents bank deposits which are covered by federal depository insurance.

**Deferred Revenue** — Deferred revenue as of June 30, 2011, consists of funds received for services which have not yet been performed.

**Contracted Service Fee Payable** — Contracted service fee payable as of June 30, 2011 represents a timing difference between funds received from governmental sources and amounts payable to NHA in accordance with the services agreement.

**The Financial Statements** — The financial statements are presented as follows:

Net assets and changes therein are classified and reported as follows:

- *Unrestricted Net Assets* — Net assets which are not subject to donor imposed or governmental stipulations.
- *Temporarily Restricted Net Assets* — Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of the Board and/or the passage of time. There were no temporarily restricted net assets at June 30, 2011.

Revenues and contributions are reported as follows:

- Revenues, gains and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed or governmental restrictions. Expenses are reported as decreases in unrestricted net assets. Other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or governmental restriction. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purposes has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

### **3. RISK MANAGEMENT**

The School is exposed to various risks of loss related to general liability. Commercial insurance policies to cover certain risks of loss have been obtained. There have been no significant reductions in insurance coverage during fiscal year 2011, and claims did not exceed coverage less retained risk deductible amounts in the past fiscal year.

### **4. CONTINGENCIES**

The School has received proceeds from several federal and state grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

### **5. OPERATING LEASE**

The School has entered into a sub-lease agreement with NHA for a facility to house the School. The lease term is from July 1, 2010 through June 30, 2011. Annual rental payments required by the lease are \$2,354,749, payable in twelve monthly payments of \$196,229. This lease is renewable on a year to year basis.

**6. SUBSEQUENT EVENTS**

Events or transactions occurring after the balance sheet date have been evaluated through October 19, 2011, the date the financial statements were available to be issued. The financial statements and the notes thereto do not reflect events or transactions after this date.

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**SUPPLEMENTAL SCHEDULE**

# BROOKLYN DREAMS CHARTER SCHOOL

## SCHEDULE OF FUNCTIONAL EXPENSES

PERIOD FROM JULY 1, 2010 (COMMENCEMENT OF OPERATIONS) THROUGH JUNE 30, 2011

	Program Services		Supporting	Total
	Regular Education	Special Education	Services Management and General	
Contracted service fee:				
Salaries and wages	\$ 942,870	\$ 98,550	\$ -	\$ 1,041,420
Retirement contributions	11,921	1,122	-	13,043
Other employee benefits	113,217	21,602	-	134,819
Payroll taxes	84,417	9,961	-	94,378
Accounting fees	4,296	-	48,733	53,029
Supplies	343,635	1,635	-	345,270
Postage and shipping	7,157	-	-	7,157
Occupancy	2,678,494	-	81,097	2,759,591
Food service	150,634	-	-	150,634
Equipment rental and maintenance	91,735	-	-	91,735
Printing and publications	11,639	-	-	11,639
Travel	6,473	-	-	6,473
Professional development and meetings	76,331	2,607	-	78,938
Professional fees	225,460	59,095	-	284,555
Instructional support	-	-	24,333	24,333
Academic and general support	-	-	150,301	150,301
Enrollment and parent relations	-	-	8,790	8,790
Board support	-	-	46,096	46,096
Human resources	-	-	76,778	76,778
Support services	-	-	45,122	45,122
Technology services	871	-	32,537	33,408
Marketing and business development	7,056	-	10,482	17,538
Insurance	34,873	-	-	34,873
Miscellaneous	8,768	-	-	8,768
Total contracted service fee	<u>\$ 4,799,847</u>	<u>\$ 194,572</u>	<u>\$ 524,269</u>	<u>\$ 5,518,688</u>

See auditors' report on supplemental schedule.

**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  
Brooklyn Dreams Charter School  
Brooklyn, NY

We have audited the financial statements of Brooklyn Dreams Charter School, (the "School"), as of June 30, 2011 and for the period from July 1, 2010 (date of commencement) through June 30, 2011, and have issued our report thereon dated October 19, 2011. 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.

**Internal Control over Financial Reporting**

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

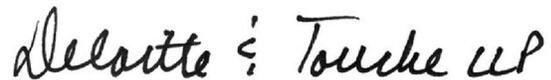
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Trustees, management of the School, National Heritage Academies, Inc., the School's authorizing agency, the New York Department of Education, federal awarding agencies, state funding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

The logo for Deloitte & Touche LLP, written in a cursive script.

October 19, 2011