



Financial Statements and Supplemental Schedule
as of and for the Years Ended June 30, 2012 and
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 statements of financial position of Brooklyn Dreams Charter School (the "School") as of June 30, 2012 and 2011, and the related statements of activities and change in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the School's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, 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 29, 2012, on our consideration of 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 audits were conducted for the purpose of forming an opinion on the School's basic financial statements. The supplemental schedule of functional expenses listed in the foregoing table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

October 29, 2012

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash	\$ 122,829	\$ 110,012
Due from governmental revenue sources	<u>174,816</u>	<u>376,274</u>
Total current assets	<u>297,645</u>	<u>486,286</u>
NON-CURRENT ASSETS:		
Capital assets	28,055	
Less accumulated depreciation	<u>(2,162)</u>	<u> </u>
Total capital assets — net of accumulated depreciation	<u>25,893</u>	<u>-</u>
TOTAL	<u>\$ 323,538</u>	<u>\$ 486,286</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 156	\$ -
Deferred revenue	10,661	45,642
Contracted service fee payable	<u>239,165</u>	<u>405,644</u>
Total liabilities	<u>249,982</u>	<u>451,286</u>
NET ASSETS:		
Invested in capital assets	25,893	
Unrestricted	<u>47,663</u>	<u>35,000</u>
Total net assets	<u>73,556</u>	<u>35,000</u>
TOTAL	<u>\$ 323,538</u>	<u>\$ 486,286</u>

See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
TOTAL REVENUE, GAINS AND OTHER SUPPORT:		
State aid	\$ 3,322,285	\$ 2,611,726
Other state sources	134,023	110,553
Federal sources	503,468	450,829
Local sources	31,367	95,703
Private sources	21,092	41,789
Private sources — National Heritage Academies, Inc.	<u>1,770,625</u>	<u>2,243,088</u>
Total revenues, gains and other support	5,782,860	5,553,688
EXPENSES — Contracted service fee	<u>5,744,304</u>	<u>5,518,688</u>
CHANGE IN NET ASSETS	38,556	35,000
NET ASSETS:		
Beginning	<u>35,000</u>	<u> </u>
End of year	<u>\$ 73,556</u>	<u>\$ 35,000</u>

See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
State aid	\$ 3,338,179	\$ 2,595,832
Other state sources	148,722	105,837
Federal sources	543,330	236,151
Local sources	127,069	
Private sources	21,412	42,148
Payments for services rendered	<u>(4,137,840)</u>	<u>(2,869,956)</u>
Net cash provided by operating activities	40,872	110,012
CASH FLOWS USED IN INVESTING ACTIVITIES — Purchase of equipment		
	<u>(28,055)</u>	<u> </u>
NET INCREASE IN CASH	12,817	110,012
CASH — Beginning of year	<u>110,012</u>	<u> </u>
CASH — End of year	<u>\$ 122,829</u>	<u>\$ 110,012</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 38,556	\$ 35,000
Depreciation	2,162	
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Change in due from governmental revenue sources	201,458	(376,274)
Change in accounts payable	156	
Change in deferred revenue	(34,981)	45,642
Change in contracted service fee payable	<u>(166,479)</u>	<u>405,644</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 40,872</u>	<u>\$ 110,012</u>
NON-CASH ACTIVITY — Contribution from National Heritage Academies, Inc.	<u>\$ 1,770,625</u>	<u>\$ 2,243,088</u>

See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 2011 through May 2012 for the year ended June 30, 2012 and from July 2010 through May 2011 for the year ended June 30, 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, 2012 and 2011, represents bank deposits which are covered by federal depository insurance.

Deferred Revenue — Deferred revenue as of June 30, 2012 and 2011, consists of funds received for services which have not yet been performed.

Contracted Service Fee Payable — Contracted service fee payable 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.

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.

Income Taxes — The Academy operates as a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Academy has received notification from the Internal Revenue Service (IRS) that they are considered exempt from Federal income tax under Section 501(c)(3) of the internal revenue code.

The Organization has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. The Organization recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and other information available at the reporting date and is subject to management's judgment. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

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 2012 or 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. CAPITAL ASSETS

Capital asset activity of the school was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Equipment	<u>\$ -</u>	<u>\$ 28,055</u>	<u>\$ -</u>	<u>\$ 28,055</u>
Total capital assets at historical cost	<u>-</u>	<u>28,055</u>	<u>-</u>	<u>28,055</u>
Less accumulated depreciation — equipment	<u> </u>	<u>2,162</u>	<u> </u>	<u>2,162</u>
Total accumulated depreciation	<u>-</u>	<u>2,162</u>	<u>-</u>	<u>2,162</u>
Total capital asset activity — net	<u><u>\$ -</u></u>	<u><u>\$ 25,893</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,893</u></u>

6. 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, 2011 through June 30, 2012. 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.

The Academy subsequently renewed the sublease with NHA for the period of July 1, 2012 through June 30, 2013, at the same rental rate.

7. SUBSEQUENT EVENTS

Events or transactions occurring after the balance sheet date have been evaluated through October 29, 2012, 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

YEARS ENDED JUNE 30, 2012 WITH COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2011

	2012				2011 Total
	Program Services		Supporting Services		
	Regular Education	Special Education	Management and General	Total	
Contracted service fee:					
Salaries and wages	\$ 1,142,998	\$ 151,676	\$ -	\$ 1,294,674	\$ 1,041,420
Retirement contributions	22,571	1,779		24,350	13,043
Other employee benefits	166,861	34,294		201,155	134,819
Payroll taxes	97,045	15,705		112,750	94,378
Accounting fees	4,068		54,553	58,621	53,029
Supplies	253,976	478		254,454	345,270
Postage and shipping	3,337			3,337	7,157
Occupancy	2,705,362		51,073	2,756,435	2,759,591
Food service	210,683			210,683	150,634
Equipment rental and maintenance	114,104			114,104	91,735
Printing and publications	20,181	1,350		21,531	11,639
Travel	3,557			3,557	6,473
Professional development and meetings	59,459	3,794		63,253	78,938
Professional fees	97,815	144,270		242,085	284,555
Instructional support			24,584	24,584	24,333
Academic and general support			162,103	162,103	150,301
Enrollment and parent relations			9,999	9,999	8,790
Board support			39,857	39,857	46,096
Human resources			44,744	44,744	76,778
Support services			23,727	23,727	45,122
Technology services	51		29,075	29,126	33,408
Marketing and business development	4,141		9,528	13,669	17,538
Insurance	22,801			22,801	34,873
Miscellaneous	10,543			10,543	8,768
Depreciation	2,162			2,162	
Total contracted service fee	<u>\$ 4,941,715</u>	<u>\$ 353,346</u>	<u>\$ 449,243</u>	<u>\$ 5,744,304</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, New York

We have audited the financial statements of Brooklyn Dreams Charter School, (the "School"), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 29, 2012. 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.

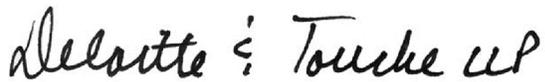
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination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

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 management, the Board of Trustees, National Heritage Academies, Inc., the 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, handwritten style.

October 29, 2012