

BROOKLYN DREAMS CHARTER SCHOOL



Financial Statements and Additional
Information, as of and for the Year Ended
June 30, 2017, and Independent Auditor's
Reports

BROOKLYN DREAMS CHARTER SCHOOL

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Independent Auditors' Report

Board of Trustees Brooklyn Dreams Charter School

We have audited the accompanying financial statements of Brooklyn Dreams Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, and cash flows for the year 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 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 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2017, and the changes in its net assets and its cash flows for the year 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 supplementary schedule of functional expenses on page 11 is presented for the purposes of additional analysis and is 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 schedule of functional expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 4, 2017

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 24,526
Due from governmental revenue sources	<u>331,358</u>
Total current assets	<u>355,884</u>

NON-CURRENT ASSETS

Capital assets, net	12,292
Restricted cash	<u>75,113</u>

TOTAL	<u><u>\$ 443,289</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Deferred revenue	\$ 2,807
Contracted service fee payable	<u>403,663</u>
Total current liabilities	<u>406,470</u>

NET ASSETS

Unrestricted and undesignated	<u>36,819</u>
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TOTAL	<u><u>\$ 443,289</u></u>
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See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS YEAR ENDED JUNE 30, 2017

REVENUES, GAINS AND OTHER SUPPORT

State aid	\$ 8,685,897
Other state sources	858,576
Federal sources	587,262
Private sources	<u>6,675</u>

Total revenues, gains and other support 10,138,410

EXPENSES

Contracted service fee	10,169,234
Depreciation	<u>2,904</u>

Total expenses 10,172,138

CHANGE IN UNRESTRICTED NET ASSETS (33,728)

NET ASSETS

Beginning of year 70,547

End of year \$ 36,819

See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30 2017

CASH FLOWS USED IN OPERATING ACTIVITIES	
State aid	\$ 8,673,498
Other state sources	841,518
Federal sources	581,379
Private sources	6,479
Payments for services rendered	<u>(10,133,636)</u>
Net cash used in operating activities	<u>(30,762)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	
Restricted cash	<u>(62)</u>
NET DECREASE IN CASH	(30,824)
CASH — Beginning of year	<u>55,350</u>
CASH — End of year	<u><u>\$ 24,526</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES	
Change in net assets	\$ (33,728)
Depreciation	2,904
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in due from governmental revenue sources	(18,282)
Change in deferred revenue	(17,254)
Change in contracted service fee payable	<u>35,598</u>
NET DECREASE IN CASH	<u><u>\$ (30,762)</u></u>

See notes to financial statements.

BROOKLYN DREAMS CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

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 Charter School Institute, which is responsible for oversight of the School's operations. The charter expires July 31, 2018 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 2016 through May 2017 for the year ended June 30, 2017.

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 and NHA pays the Board of Directors an amount equal to the lesser of two percent of state per pupil aid or \$35,000. These funds are property of the School and may be used by the School at the discretion of the board.

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 ("U.S. GAAP") for not-for-profit organizations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Estimates — The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of 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 represents bank deposits which are covered by federal depository insurance.

Restricted Cash — Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Deferred Revenue — Deferred revenue 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.

Capital Assets — Capital assets, which include equipment, are reported at historical costs of more than \$2,000 and an estimated useful life in excess of one year.

Equipment is depreciated using the straight-line method over useful lives of 3-10 years.

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 has elapsed) are reported as reclassifications between the applicable classes of net assets.
- Revenue is recorded when earned, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes — The School operates as a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The School 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.

Accordingly, no provision for federal income taxes has been made.

Accounting for Uncertainty in Income Taxes — The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

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 2017, 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:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Equipment	\$ 29,040	\$ -	\$ -	\$ 29,040
Less accumulated depreciation — equipment	<u>13,844</u>	<u>2,904</u>	<u>-</u>	<u>16,748</u>
Total capital asset activity, net	<u>\$ 15,196</u>	<u>\$ (2,904)</u>	<u>\$ -</u>	<u>\$ 12,292</u>

6. OPERATING LEASE

The School has entered into a sublease agreement with NHA for a facility to house the School. The lease term is from July 1, 2016 through June 30, 2017. Annual rental payments required by the lease were \$2,354,748 payable in twelve monthly payments of \$196,229. This lease is automatically renewed on a year-to-year basis unless a notice of non-renewal is provided by either the School or NHA.

The School subsequently renewed the sublease with NHA for the period of July 1, 2017 through June 30, 2018 at the same rental rate.

7. FUNCTIONAL EXPENSES

The School provides a comprehensive education programs to enrolled students. Expenses incurred for these programs and other expenses for the year ending June 30, 2017 are as follows:

Program services:	
Regular education	\$ 8,165,894
Special education	767,173
Supporting services — management and general	<u>1,236,167</u>
Total contracted service fee	\$ 10,169,234
Depreciation expense	<u>2,904</u>
Total Expenses	<u>\$ 10,172,138</u>

8. SUBSEQUENT EVENTS

Events or transactions for the year ended June 30, 2017 have been evaluated through October 4, 2017, 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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SUPPLEMENTARY INFORMATION

BROOKLYN DREAMS CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2017

	No. of Positions	Program Services				Supporting Services			Total
		Regular Education	Special Education	Other Education	Total	Fund-raising	Management and General	Total	
Personnel Services Costs									
Administrative Staff Personnel	-	\$ 594,169	\$ -	\$ -	\$ 594,169	\$ -	\$ -	\$ -	\$ 594,169
Instructional Personnel	-	2,431,980	498,410	-	2,930,390	-	-	-	2,930,390
Non-Instructional Personnel	-	167,584	-	-	167,584	-	-	-	167,584
Total Salaries and Staff	-	3,193,733	498,410	-	3,692,143	-	-	-	3,692,143
Fringe Benefits & Payroll Taxes		666,001	118,626	-	784,627	-	-	-	784,627
Retirement		48,287	7,298	-	55,585	-	-	-	55,585
Management Company Fees		-	-	-	-	-	-	-	-
Legal Service		12,700	-	-	12,700	-	-	-	12,700
Accounting / Audit Services		26,304	-	-	26,304	-	158,378	158,378	184,682
Other Purchased / Professional / Consulting Services		460	137,778	-	138,238	-	411,697	411,697	549,935
Building and Land Rent / Lease		2,617,716	-	-	2,617,716	-	-	-	2,617,716
Repairs & Maintenance		414,340	-	-	414,340	-	15,748	15,748	430,088
Insurance		38,183	-	-	38,183	-	-	-	38,183
Utilities		139,413	-	-	139,413	-	-	-	139,413
Supplies / Materials		174,255	-	-	174,255	-	-	-	174,255
Equipment / Furnishings		143,188	-	-	143,188	-	-	-	143,188
Staff Development		89,223	2,453	-	91,676	-	41,779	41,779	133,455
Marketing / Recruitment		51,306	-	-	51,306	-	205,141	205,141	256,447
Technology		65,210	-	-	65,210	-	153,386	153,386	218,596
Food Service		336,337	-	-	336,337	-	-	-	336,337
Student Services		33,116	-	-	33,116	-	63,141	63,141	96,257
Office Expense		32,879	-	-	32,879	-	6,467	6,467	39,346
Depreciation		2,904	-	-	2,904	-	-	-	2,904
Other		83,243	2,608	-	85,851	-	180,430	180,430	266,281
Total Expenses		<u>\$ 8,168,798</u>	<u>\$ 767,173</u>	<u>\$ -</u>	<u>\$ 8,935,971</u>	<u>\$ -</u>	<u>\$ 1,236,167</u>	<u>\$ 1,236,167</u>	<u>\$10,172,138</u>

See independent auditors' report



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*

Independent Auditors' Report

**Board of Trustees
Brooklyn Dreams Charter School**

We have audited, in accordance with the 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, the financial statements of Brooklyn Dreams Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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**Board of Trustees
Brooklyn Dreams Charter School**

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 4, 2017