McGladrey & Pullen
Certified Public Accountants

Beginning with Children Charter School

Financial Report

June 30, 2009

Contents

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Beginning with Children Charter School
Brooklyn, New York

We have audited the accompanying statements of financial position of Beginning with Children Charter School (the "School") as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and 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 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 Beginning with Children Charter School as of June 30, 2009 and 2008, 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 22, 2009 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 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.

McGladrey & Pullen, LLP

New York, New York
October 22, 2009

Beginning with Children Charter School

Statements of Financial Position
June 30, 2009 and 2008

		2009		2008
ASSETS				
Cash and Cash Equivalents	**$**	**606,594**	$	69,709
Investments		**1,212,360**		1,173,194
Grants and Accounts Receivable (due within one year)		**234,997**		212,838
Assets Designated by Board for Facilities and Personnel		**62,108**		62,108
Prepaid Expenses		**46,428**		334
Property and Equipment, net		**49,136**		129,215
Total assets	**$**	**2,211,623**	$	1,647,398
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued expenses	**$**	**987,705**	$	1,125,531
Due to Beginning with Children Foundation		**-**		88,872
Total liabilities		**987,705**		1,214,403
Contingency				
Unrestricted Net Assets:				
Other		**1,052,674**		235,417
Net investment in plant		**49,136**		129,215
Board-designated		**62,108**		62,108
Temporarily Restricted Net Assets		**60,000**		6,255
Total net assets		**1,223,918**		432,995
Total liabilities and net assets	**$**	**2,211,623**	$	1,647,398

See Notes to Financial Statements.

Beginning with Children Charter School

Statements of Activities
Years Ended June 30, 2009 and 2008

	2009					2008				
	Unrestricted Net Assets					Unrestricted Net Assets				
	Board-Designated	Other	Investment in Plant	Temporarily Restricted Net Assets	Total	Board-Designated	Other	Investment in Plant	Temporarily Restricted Net Assets	Total
Operating Revenue:										
State and local per pupil operating revenue	$ -	$ 5,876,424	$ -	$ -	$ 5,876,424	$ -	$ 5,006,613	$ -	$ -	$ 5,006,613
Government grants	-	286,787	-	-	286,787	-	266,295	-	-	266,295
Total operating revenue	-	6,163,211	-	-	6,163,211	-	5,272,908	-	-	5,272,908
Expenses:										
Program services	-	4,819,496	79,869	-	4,899,365	-	4,865,520	142,929	-	5,008,449
General and administrative	-	626,165	3,107	-	629,272	-	549,010	4,748	-	553,758
Development	-	40,450	-	-	40,450	-	36,735	-	-	36,735
Total operating expenses	-	5,486,111	82,976	-	5,569,087	-	5,451,265	147,677	-	5,598,942
Gain on government-funded school operations	-	677,100	(82,976)	-	594,124	-	(178,357)	(147,677)	-	(326,034)
Other Revenue:										
Contributions and grants - private	-	99,324	-	60,000	159,324	-	142,132	-	6,255	148,387
Interest income	-	37,475	-	-	37,475	-	52,214	-	-	52,214
Net assets released from restriction	-	6,255	-	(6,255)	-	-	-	-	-	-
Total other revenue	-	143,054	-	53,745	196,799	-	194,346	-	6,255	200,601
Interfund Transfers	-	(2,897)	2,897	-	-	-	(15,989)	15,989	-	-
Change in net assets	-	817,257	(80,079)	53,745	790,923	-	-	(131,688)	6,255	(125,433)
Net Assets:										
Beginning	62,108	235,417	129,215	6,255	432,995	62,108	235,417	260,903	-	558,428
Ending	$ 62,108	$ 1,052,674	$ 49,136	$ 60,000	$ 1,223,918	$ 62,108	$ 235,417	$ 129,215	$ 6,255	$ 432,995

See Notes to Financial Statements.

Beginning with Children Charter School

Statement of Functional Expenses
Year Ended June 30, 2009

	Program Services	General and Administrative	Development	Total
Personnel services	$ 3,005,315	$ 223,619	$ -	**$ 3,228,934**
Payroll taxes and employee benefits	1,415,037	69,804	-	**1,484,841**
Occupancy	42,486	5,010	-	**47,496**
Classroom instructional material and supplies	49,590	-	-	**49,590**
Trips and admissions	4,930	-	-	**4,930**
Research and evaluation	11,659	-	-	**11,659**
Staff development	2,375	-	-	**2,375**
Special needs	446	-	-	**446**
After school, summer school and substitutes	145,912	-	-	**145,912**
Consultants	20,120	-	-	**20,120**
Management fee	80,901	283,154	40,450	**404,505**
Accounting and legal fees	-	4,744	-	**4,744**
Office and technology supplies	-	13,757	-	**13,757**
Telephone	-	5,961	-	**5,961**
Postage and shipping	-	5,088	-	**5,088**
Miscellaneous and other expenses	40,725	15,028	-	**55,753**
Depreciation and amortization	79,869	3,107	-	**82,976**
Total expenses	$ 4,899,365	$ 629,272	$ 40,450	**$ 5,569,087**

See Notes to Financial Statements.

Beginning with Children Charter School

Statement of Functional Expenses
Year Ended June 30, 2008

	Program Services	General and Administrative	Development	Total
Personnel services	$ 3,113,823	$ 230,538	$ -	$ 3,344,361
Payroll taxes and employee benefits	1,302,464	43,907	-	1,346,371
Occupancy	75,316	16,078	-	91,394
Classroom instructional material and supplies	74,325	-	-	74,325
Trips and admissions	24,028	-	-	24,028
Research and evaluation	2,880	-	-	2,880
Staff development	7,993	-	-	7,993
Special needs	101,369	-	-	101,369
After school, summer school and substitutes	123,174	-	-	123,174
Consultants	16,114	10,192	-	26,306
Business services	-	141,307	-	141,307
Accountability	-	-	36,735	36,735
Technology services	-	27,149	-	27,149
Accounting and legal fees	-	39,129	-	39,129
Office and technology supplies	-	16,215	-	16,215
Telephone	-	4,534	-	4,534
Postage and shipping	-	5,487	-	5,487
Miscellaneous and other expenses	24,034	14,474	-	38,508
Depreciation and amortization	142,929	4,748	-	147,677
Total expenses	$ 5,008,449	$ 553,758	$ 36,735	$ 5,598,942

See Notes to Financial Statements.

Beginning with Children Charter School

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Change in net assets	**$ 790,923**	$ (125,433)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**82,976**	147,677
Changes in operating assets and liabilities:		
(Increase) decrease in grants and accounts receivable	**(22,159)**	26,190
(Increase) decrease in prepaid expenses	**(46,094)**	4,898
(Decrease) increase in accounts payable and accrued expenses	**(137,826)**	87,578
(Decrease) increase in due to Beginning with Children Foundation	**(88,872)**	88,046
Net cash provided by operating activities	**578,948**	228,956
Cash Flows From Investing Activities:		
Purchase of property and equipment	**(2,897)**	(15,989)
Proceeds from sale of investments	**1,235,302**	62,108
Purchase of investments	**(1,274,468)**	(1,235,302)
Net cash used in investing activities	**(42,063)**	(1,189,183)
Net increase (decrease) in cash and cash equivalents	**536,885**	(960,227)
Cash and Cash Equivalents:		
Beginning	**69,709**	1,029,936
Ending	**$ 606,594**	$ 69,709

See Notes to Financial Statements.

Note 1. Principal Business Activity and Summary of Significant Accounting Policies

Beginning with Children Charter School (the "School") is an education corporation that operates as a charter school in the borough of Brooklyn, New York. On September 15, 2000, the Board of Regents of the University of the State of New York for and on behalf of the State Education Department granted the School a provisional charter valid for a term of five years from the effective date of September 1, 2001 and renewable upon expiration. The School was converted from an existing New York City Department of Education school. During the fiscal year 2006, the School was reviewed by its authorizer and received a five-year renewal of its charter from the Board of Regents of the University of the State of New York for and on behalf of the State Education Department.

The School's mission is to provide a diverse, caring and nurturing learning community that fosters high academic achievement and the development of ethical character for elementary and middle school students. An enriched curriculum and dynamic partnerships between the School, families and community enable all students to excel. Continual assessment and evaluation enhance the educational program. The School prepares graduates for success in high school, college and beyond by developing independent thinkers and active citizens.

The New York City Department of Education provides free and reduced-price lunches and transportation directly to a majority of the School's students.

The financial statements of the School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the School reflect contributions received from the public and other organizations.

The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year.

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and state funds are recorded by the School when expenditures are incurred and billable.

A number of volunteers have made a significant contribution of their time to the School. However, these services have not been recognized, inasmuch as such services either do not require specialized skills or would not typically be purchased had they not been provided by donation.

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts.

Investments are stated at cost plus accrued interest; this approximates fair value, which is 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 accordance with the agreement to convert the School from the existing New York City Department of Education school, the employees of the School are members of various unions.

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Property and equipment, net, is recorded at cost. Additions in excess of $1,000 with an estimated useful life of more than one year are capitalized. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets.

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Board-designated net assets were established by the board of trustees to provide a fiscally prudent reserve for unforeseen facility, personnel and other issues.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Financial Accounting Standards Board (the "FASB") has issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return, including positions that an organization is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The School presently recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies.*

The School has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adopt FIN 48 in its 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Management has evaluated the effects of FIN 48 and does not believe that it has a material impact on the School's financial position and results of operations.

The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 22, 2009 for these financial statements.

The statement of financial position at June 30, 2008 classified $1,173,194 of certificates of deposit as cash and cash equivalents. Correspondingly the statement of cash flows for the year ended June 30, 2008 understated cash used in investing activities by $1,173,194 and overstated cash and cash equivalents by the same amount. This amount has been reclassified from cash and cash equivalents to investments in the accompanying financial statements with no effect on net assets or changes in net assets as of and for the year ended June 30, 2008.

Note 2. Related Party Transactions

The Beginning with Children Foundation (the "Foundation") is a not-for-profit organization dedicated to improving the educational opportunities of urban children through the creation of autonomous, high-performing public schools. The Foundation is a cofounder of the School.

As educational manager to charter schools during the fiscal year ended June 30, 2009, the Foundation entered into a Memorandum of Understanding ("MOU") agreement with the School. Pursuant to the terms of the MOU agreement, the School paid a service fee to the Foundation in the amount of $404,505. The Foundation supported the School in the areas of leadership and strategy, curriculum and assessment, research and evaluation, business services, compliance, development, technology, communications, outreach and alumni program management.

For the year ended June 30, 2008, the MOU was based on a shared cost arrangement whereby the Foundation shared staff and consultants in the areas of school governance, fiscal management, development, technology and research. The School's allocable cost for these shared services was $303,644. In addition, the Foundation provided a direct grant of $21,133 to support the School's programs and to defray an operating deficit for the year ended June 30, 2008. No amount was due to the Foundation at June 30, 2009. At June 30, 2008, $88,872 was due to the Foundation. At June 30, 2009, the Foundation provided a library grant to the School in the amount of $60,000. This amount is included in temporarily restricted net assets on the accompanying statement of activities.

Note 3. Fair Value of Investments

Pursuant to the provisions described in Statement of Financial Standards ("SFAS") No. 157, *Fair Value Measurements,* the School categorizes its financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation of assets and liabilities traded in less active dealer or broker markets that have significant observable inputs are classified as Level 2. Level 2 valuations are usually obtained from third-party pricing service valuations for identical or similar assets. If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The School's investments at June 30, 2009 consist of certificates of deposit amounting to $1,274,468 (inclusive of $62,108 of assets designated by the board of trustees for facilities and personnel), which are classified as Level 2 in the fair value hierarchy.

Note 4. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

	2009	2008	Estimated Useful Life
Furniture and fixtures	**$ 312,297**	$ 312,298	3 to 7 years
Leasehold improvements	**376,081**	376,081	5 years
Computer equipment	**171,498**	168,600	3 years
	859,876	856,979	
Less accumulated depreciation and amortization	**810,740**	727,764	
	$ 49,136	$ 129,215	

Note 4. Property and Equipment, Net (Continued)

Depreciation and amortization expense was $82,976 and $147,677 for the years ended June 30, 2009 and 2008, respectively.

Note 5. Tax Status

The Internal Revenue Service has determined that the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 6. School Facilities

As a conversion charter, the School continues to occupy approximately 39,000 square feet of space in its original facility located at 11 Bartlett Street in Williamsburg, Brooklyn. The upper grades at the School occupy approximately 10,000 square feet of space in an existing public school facility at 185 Ellery Street in Williamsburg. This facility has been made available at no charge to the School by the New York City Department of Education.

Note 7. Pension Plans

The School contributes to various pension funds determined by union membership of employees at the School. The amount charged to operations for contributions to these funds amounted to approximately $708,000 and $545,000 for the years ended June 30, 2009 and 2008, respectively.

Note 8. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of contributions that are restricted for the purchase of library materials.

McGladrey & Pullen
Certified Public Accountants

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
Beginning with Children Charter School
Brooklyn, New York

We have audited the financial statements of Beginning with Children Charter School (the "School") as of and for the year ended June 30, 2009 and have issued our report thereon dated October 22, 2009. 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 - In planning and performing our audit, we considered the School's internal control over financial reporting in order to determine 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.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 audit committee, management, the board of trustees, the Charter Schools Institute of the State of New York, the New York City Department of Education and the State Education Department of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
October 22, 2009