

# **Beginning with Children Charter School**

Financial Report

June 30, 2010

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## 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, 2010 and 2009, 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, 2010 and 2009, 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 27, 2010 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 27, 2010

## Beginning with Children Charter School

### Statements of Financial Position June 30, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 559,509	\$ 606,594
Investments	1,694,740	1,212,360
Grants and Accounts Receivable (due within one year)	272,001	234,997
Assets Designated by Board for Facilities and Personnel	62,108	62,108
Prepaid Expenses	1,000	46,428
Property and Equipment, net	<u>170,869</u>	<u>49,136</u>
<b>Total assets</b>	<b><u>\$ 2,760,227</u></b>	<b><u>\$ 2,211,623</u></b>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,075,294	\$ 987,705
Due to Beginning with Children Foundation	<u>4,386</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>1,079,680</u></b>	<b><u>987,705</u></b>
Contingency		
Unrestricted Net Assets:		
Undesignated	1,437,570	1,052,674
Net investment in plant	170,869	49,136
Board-designated	<u>62,108</u>	<u>62,108</u>
<b>Total unrestricted net assets</b>	<b><u>1,670,547</u></b>	<b><u>1,163,918</u></b>
Temporarily Restricted	<u>10,000</u>	<u>60,000</u>
<b>Total net assets</b>	<b><u>1,680,547</u></b>	<b><u>1,223,918</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,760,227</u></b>	<b><u>\$ 2,211,623</u></b>

See Notes to Financial Statements.

Beginning with Children Charter School

Statements of Activities  
Years Ended June 30, 2010 and 2009

	2010					2009				
	Unrestricted Net Assets				Total	Unrestricted Net Assets				Total
	Board-Designated	Undesignated	Investment in Plant	Temporarily Restricted Net Assets		Board-Designated	Undesignated	Investment in Plant	Temporarily Restricted Net Assets	
Operating Revenue:										
State and local per pupil operating revenue	\$ -	\$ 5,991,679	\$ -	\$ -	\$ 5,991,679	\$ -	\$ 5,876,424	\$ -	\$ -	\$ 5,876,424
Government grants	-	336,225	-	-	336,225	-	286,787	-	-	286,787
<b>Total operating revenue</b>	<b>-</b>	<b>6,327,904</b>	<b>-</b>	<b>-</b>	<b>6,327,904</b>	<b>-</b>	<b>6,163,211</b>	<b>-</b>	<b>-</b>	<b>6,163,211</b>
Expenses:										
Program services	-	5,328,964	29,583	-	5,358,547	-	4,819,496	79,869	-	4,899,365
General and administrative	-	611,145	1,891	-	613,036	-	626,165	3,107	-	629,272
Development	-	41,245	-	-	41,245	-	40,450	-	-	40,450
<b>Total operating expenses</b>	<b>-</b>	<b>5,981,354</b>	<b>31,474</b>	<b>-</b>	<b>6,012,828</b>	<b>-</b>	<b>5,486,111</b>	<b>82,976</b>	<b>-</b>	<b>5,569,087</b>
Gain on Government-Funded School Operations	-	346,550	(31,474)	-	315,076	-	677,100	(82,976)	-	594,124
Other Revenue:										
Contributions and grants - private	-	117,448	-	10,000	127,448	-	99,324	-	60,000	159,324
Investment earnings	-	14,105	-	-	14,105	-	37,475	-	-	37,475
Net assets released from restriction	-	60,000	-	(60,000)	-	-	6,255	-	(6,255)	-
<b>Total other revenue</b>	<b>-</b>	<b>191,553</b>	<b>-</b>	<b>(50,000)</b>	<b>141,553</b>	<b>-</b>	<b>143,054</b>	<b>-</b>	<b>53,745</b>	<b>196,799</b>
Interfund Transfers	-	(153,207)	153,207	-	-	-	(2,897)	2,897	-	-
<b>Change in net assets</b>	<b>-</b>	<b>384,896</b>	<b>121,733</b>	<b>(50,000)</b>	<b>456,629</b>	<b>-</b>	<b>817,257</b>	<b>(80,079)</b>	<b>53,745</b>	<b>790,923</b>
Net Assets:										
Beginning	62,108	1,052,674	49,136	60,000	1,223,918	62,108	235,417	129,215	6,255	432,995
Ending	<b>\$ 62,108</b>	<b>\$ 1,437,570</b>	<b>\$ 170,869</b>	<b>\$ 10,000</b>	<b>\$ 1,680,547</b>	<b>\$ 62,108</b>	<b>\$ 1,052,674</b>	<b>\$ 49,136</b>	<b>\$ 60,000</b>	<b>\$ 1,223,918</b>

See Notes to Financial Statements.

**Beginning with Children Charter School**

**Statements of Functional Expenses  
Years Ended June 30, 2010 and 2009**

	2010				2009			
	Program Services	General and Administrative	Development	Total	Program Services	General and Administrative	Development	Total
Personnel services	\$ 3,351,311	\$ 177,010	\$ -	\$ 3,528,321	\$ 3,005,315	\$ 223,619	\$ -	\$ 3,228,934
Payroll taxes and employee benefits	1,480,289	73,663	-	1,553,952	1,415,037	69,804	-	1,484,841
Occupancy	52,072	12,304	-	64,376	42,486	5,010	-	47,496
Classroom instructional material and supplies	171,108	-	-	171,108	49,590	-	-	49,590
Trips and admissions	21,231	-	-	21,231	4,930	-	-	4,930
Research and evaluation	4,056	-	-	4,056	11,659	-	-	11,659
Staff development	2,705	-	-	2,705	2,375	-	-	2,375
Special needs	1,898	-	-	1,898	446	-	-	446
After school, summer school and substitutes	116,015	-	-	116,015	145,912	-	-	145,912
Consultants	11,895	-	-	11,895	20,120	-	-	20,120
Management fee	82,491	288,716	41,245	412,452	80,901	283,154	40,450	404,505
Accounting and legal fees	-	17,733	-	17,733	-	4,744	-	4,744
Office and technology supplies	-	20,500	-	20,500	-	13,757	-	13,757
Telephone	-	6,221	-	6,221	-	5,961	-	5,961
Postage and shipping	-	7,446	-	7,446	-	5,088	-	5,088
Miscellaneous and other expenses	33,893	7,552	-	41,445	40,725	15,028	-	55,753
Depreciation and amortization	29,583	1,891	-	31,474	79,869	3,107	-	82,976
<b>Total expenses</b>	<b>\$ 5,358,547</b>	<b>\$ 613,036</b>	<b>\$ 41,245</b>	<b>\$ 6,012,828</b>	<b>\$ 4,899,365</b>	<b>\$ 629,272</b>	<b>\$ 40,450</b>	<b>\$ 5,569,087</b>

See Notes to Financial Statements.

## Beginning with Children Charter School

### Statements of Cash Flows Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities:		
Change in net assets	\$ 456,629	\$ 790,923
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	31,474	82,976
Changes in operating assets and liabilities:		
Increase in grants and accounts receivable	(37,004)	(22,159)
Decrease (increase) in prepaid expenses	45,428	(46,094)
Increase (decrease) in accounts payable and accrued expenses	87,589	(137,826)
Increase (decrease) in due to Beginning with Children Foundation	4,386	(88,872)
<b>Net cash provided by operating activities</b>	<b>588,502</b>	<b>578,948</b>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(153,207)	(2,897)
Proceeds from sale of investments	267,620	1,235,302
Purchase of investments	(750,000)	(1,274,468)
<b>Net cash used in investing activities</b>	<b>(635,587)</b>	<b>(42,063)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(47,085)</b>	<b>536,885</b>
Cash and Cash Equivalents:		
Beginning	606,594	69,709
Ending	\$ 559,509	\$ 606,594

See Notes to Financial Statements.

## Beginning with Children Charter School

### Notes to Financial Statements

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

Principal Business Activity: 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.

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.

Basis of Accounting: 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.

Contributions: 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. Amounts received with donor stipulations that limit the use of the assets for certain purposes are reported as unrestricted support if the stipulated purpose restriction is accomplished in the same year.

Grants and Refundable Advances: 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. Revenue from federal, state and local grants and contracts are recognized as revenue when qualifying expenditures are incurred. Amounts received in excess of expenditures incurred are recognized as refundable advances.

Contributed Services: Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets or would have been purchased if not provided by donation, require special skills and are provided by individuals possessing such skills.

A number of volunteers have made a contribution of their time to the School to develop academic and other programs and to serve on the board of trustees. The value of this contributed time is not reflected in the financial statements as such services either do not require specialized skills or would not typically be purchased had they not been provided as donations.

Concentration of Credit Risk: The School maintains its cash in bank deposit accounts with two financial institutions. At times, balances on these accounts may exceed federally insured limits. The School has not experienced any losses in such accounts.

## Beginning with Children Charter School

### Notes to Financial Statements

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

Investments: Investments are stated at amortized cost which approximates fair value.

Property and Equipment and Related Depreciation: 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. Leasehold improvements are amortized over five years. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets.

Net 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.

Use of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As a nonprofit organization, the School is subject to unrelated business income tax ("UBIT"), if applicable. For the fiscal years ended June 30, 2010 and 2009, the School did not owe any UBIT.

On July 1, 2009, the School adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the School may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the School's tax positions and concluded that the School had taken no uncertain tax positions that require adjustments to the financial statements to comply with the provisions of this guidance. With few exceptions, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

New Accounting Standard: In June 2009, the Financial Accounting Standards Board ("the FASB") established the FASB Accounting Standards Codification ("ASC" or the "Codification") as the source of authoritative GAAP recognized by the FASB to be applied to nongovernmental entities, and rules and interpretative releases of the SEC as authoritative GAAP for SEC registrants. The Codification superseded all the existing non-SEC accounting and reporting standards upon its effective date and the FASB will not issue new standards in the form of statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. This guidance also replaced the prior guidance regarding the GAAP hierarchy given that the guidance within the Codification carries the same level of authority. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The guidance is limited to disclosure in the financial statements and the names by which the School refers to GAAP authoritative literature. There was no impact on the School's financial statements.

Subsequent Events: 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 27, 2010 for these financial statements.

## Beginning with Children Charter School

### Notes to Financial Statements

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#### **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 years ended June 30, 2010 and 2009, the Foundation entered into a Memorandum of Understanding ("MOU") agreement with the School. Pursuant to the terms of the MOU agreement, the School agreed to pay service fees to the Foundation in the amounts of \$412,452 and \$404,505 for the fiscal years ended June 30, 2010 and 2009, respectively. 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.

The Foundation provided direct financial support for the School's programs and operations in the amount of \$21,133 for the fiscal year ended June 30, 2009, and this amount is included in contributions and grants - private in the statements of activities.

At June 30, 2010, the amounts due to the Foundation were \$4,386. No amount was due to or from the Foundation at June 30, 2009.

#### **Note 3. Fair Value of Investments**

Pursuant to the provisions described in ASC Topic 820 Subtopic 10 ("ASC 820-10") formerly referred to as 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). Valuations for assets and liabilities traded in less active dealer or broker markets, those that have significant observable inputs (Level 2) are usually obtained from third-party pricing services for identical or similar assets or liabilities. 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. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The School's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The School's investments at June 30, 2010 and 2009 consist of certificates of deposits amounting to \$1,756,848 and \$1,274,468 (inclusive of \$62,108 of assets designated by the board of trustees for facilities and personnel), respectively, which are classified as Level 2 in the fair value hierarchy.

## Beginning with Children Charter School

### Notes to Financial Statements

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#### Note 4. Property and Equipment, Net

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

	<u>2010</u>	<u>2009</u>	<u>Estimated Useful Life</u>
Furniture and fixtures	\$ 319,636	\$ 312,297	3 to 7 years
Leasehold improvements	382,497	376,081	5 years
Computer equipment	<u>310,950</u>	<u>171,498</u>	3 years
	1,013,083	859,876	
Less accumulated depreciation and amortization	<u>842,214</u>	<u>810,740</u>	
	<u>\$ 170,869</u>	<u>\$ 49,136</u>	

Depreciation and amortization expense was \$31,474 and \$82,976 for the years ended June 30, 2010 and 2009, respectively.

#### Note 5. 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 6. 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 \$688,000 and \$708,000 for the years ended June 30, 2010 and 2009, respectively.

#### Note 7. 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 8. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2010 consist of contributions that are restricted for the subsequent period.

At June 30, 2009, temporarily restricted net assets consist of contributions that were restricted for the purchase of library materials. The School satisfied the purpose restriction on these net assets and the amount of \$60,000 was released from restrictions during the year ended June 30, 2010.



**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, 2010, and have issued our report thereon dated October 27, 2010. 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 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 the 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, contract 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 Charter Schools Institute of the State of New York, 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 27, 2010