

**McGladrey & Pullen**

Certified Public Accountants

# **Beginning with Children Charter School**

Financial Statements

June 30, 2008

## Contents

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Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 - 12

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Beginning with Children Charter School (the "School") as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of the School were audited by Goldstein Golub Kessler LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP on October 3, 2007. GGK report, dated October 25, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of Beginning with Children Charter School as of June 30, 2008, and the changes in its net assets and its cash flows for the year 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 24, 2008 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 24, 2008

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an affiliation of separate and independent legal entities.

## Beginning with Children Charter School

### Statements of Financial Position June 30, 2008 and 2007

	2008	2007
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,242,903	\$ 1,029,936
Grants and Accounts Receivable (due within one year)	212,838	239,028
Assets Designated by Board for Facilities and Personnel	62,108	62,108
Prepaid Expenses	334	5,232
Property and Equipment, net	<u>129,215</u>	<u>260,903</u>
<b>Total assets</b>	<u><b>\$ 1,647,398</b></u>	<u><b>\$ 1,597,207</b></u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,125,531	\$ 1,037,953
Due to Beginning with Children Foundation	<u>88,872</u>	<u>826</u>
<b>Total liabilities</b>	<u><b>1,214,403</b></u>	<u><b>1,038,779</b></u>
Contingency		
Unrestricted Net Assets:		
Other	235,417	235,417
Net investment in plant	129,215	260,903
Board-designated	62,108	62,108
Temporarily Restricted Net Assets	<u>6,255</u>	<u>-</u>
<b>Total net assets</b>	<u><b>432,995</b></u>	<u><b>558,428</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$ 1,647,398</b></u>	<u><b>\$ 1,597,207</b></u>

Beginning with Children Charter School

Statements of Activities

Years Ended June 30, 2008 and 2007

	2008				2007	
	Unrestricted Net Assets					Unrestricted
	Board- Designated	Other	Investment in Plant	Temporarily Restricted Net Assets	Total	Net Assets Total
Operating revenue:						
State and local per pupil operating revenue	\$ -	\$ 5,006,613	\$ -	\$ -	\$ 5,006,613	\$ 4,686,377
Government grants	-	266,295	-	-	266,295	282,453
<b>Total operating revenue</b>	<b>-</b>	<b>5,272,908</b>	<b>-</b>	<b>-</b>	<b>5,272,908</b>	<b>4,968,830</b>
Expenses:						
Program services	-	4,865,520	142,929	-	5,008,449	4,608,143
General and administrative	-	549,010	4,748	-	553,758	449,220
Development	-	36,735	-	-	36,735	34,986
<b>Total operating expenses</b>	<b>-</b>	<b>5,451,265</b>	<b>147,677</b>	<b>-</b>	<b>5,598,942</b>	<b>5,092,349</b>
Loss on government-funded school operations	-	(178,357)	(147,677)	-	(326,034)	(123,519)
Other revenue:						
Contributions and grants - private	-	142,132	-	6,255	148,387	113,676
Interest income	-	52,214	-	-	52,214	57,698
<b>Total other revenue</b>	<b>-</b>	<b>194,346</b>	<b>-</b>	<b>6,255</b>	<b>200,601</b>	<b>171,374</b>
Interfund transfers	-	(15,989)	15,989	-	-	-
<b>Change in net assets</b>	<b>-</b>	<b>-</b>	<b>(131,688)</b>	<b>6,255</b>	<b>(125,433)</b>	<b>47,855</b>
Net assets:						
Beginning	62,108	235,417	260,903	-	558,428	510,573
Ending	\$ 62,108	\$ 235,417	\$ 129,215	\$ 6,255	\$ 432,995	\$ 558,428

Beginning with Children Charter School

Statement of Functional Expenses  
Year Ended June 30, 2008

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
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
<b>Total expenses</b>	<u>\$ 5,008,449</u>	<u>\$ 553,758</u>	<u>\$ 36,735</u>	<u>\$ 5,598,942</u>

See Notes to Financial Statements.

Beginning with Children Charter School

Statement of Functional Expenses  
Year Ended June 30, 2007

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Development</u>	<u>Total</u>
Personnel services	\$ 2,836,530	\$ 131,173	\$ -	\$ 2,967,703
Payroll taxes and employee benefits	1,125,429	43,333	-	1,168,762
Occupancy	69,210	15,661	-	84,871
Classroom instructional material and supplies	95,298	-	-	95,298
Trips and admissions	15,961	-	-	15,961
Research and evaluation	51,884	-	-	51,884
Staff development	35,405	-	-	35,405
Special needs	96,931	-	-	96,931
After school, summer school and substitutes	85,788	-	-	85,788
Consultants	8,683	-	-	8,683
Business services	-	134,673	-	134,673
Accountability	-	42,798	-	42,798
Development	-	-	34,986	34,986
Technology services	-	25,856	-	25,856
Accounting and legal fees	-	23,105	-	23,105
Office and technology supplies	-	10,876	-	10,876
Telephone	-	4,560	-	4,560
Postage and shipping	-	3,568	-	3,568
Miscellaneous and other expenses	30,260	8,259	-	38,519
Depreciation and amortization	156,764	5,358	-	162,122
<b>Total expenses</b>	<b>\$ 4,608,143</b>	<b>\$ 449,220</b>	<b>\$ 34,986</b>	<b>\$ 5,092,349</b>

See Notes to Financial Statements.

## Beginning with Children Charter School

### Statements of Cash Flows Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Change in net assets	\$ (125,433)	\$ 47,855
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	147,677	162,122
Changes in operating assets and liabilities:		
Decrease in grants and accounts receivable	26,190	85,849
Decrease in due from Beginning with Children Foundation	-	179,912
Decrease (increase) in prepaid expenses	4,898	(5,232)
Increase (decrease) in accounts payable and accrued expenses	87,578	(2,438)
Increase in due to Beginning with Children Foundation	88,046	826
	<u>228,956</u>	<u>468,894</u>
<b>Net cash provided by operating activities</b>	<b>228,956</b>	<b>468,894</b>
Cash Flows From Investing Activity - purchase of property and equipment	<u>(15,989)</u>	<u>(16,515)</u>
	<b>212,967</b>	<b>452,379</b>
<b>Net increase in cash and cash equivalents</b>	<b>212,967</b>	<b>452,379</b>
Cash and Cash Equivalents:		
Beginning	<u>1,029,936</u>	<u>577,557</u>
Ending	<u>\$ 1,242,903</u>	<u>\$ 1,029,936</u>

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**

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 statement 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.

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.

## 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)**

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 the use of estimates by management. Actual results could differ from those estimates.

In July 2006, the Financial Accounting Standards Board (the "FASB") issued 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 comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 31, 2007. The School will be required to adopt FIN 48 in its June 30, 2009 financial statements. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Additional disclosures about the amounts of such liabilities will also be required. The adoption of FIN 48 is not expected to have a material impact on the School's financial position, change in net assets or cash flows.

In August 2008, the FASB issued FASB Staff Position No. SFAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* ("UPMIFA"), and *Enhanced Disclosures for All Endowment Funds* ("FSP SFAS 117-1") to provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA. The FSP also requires additional disclosures about an organization's endowment (both donor-restricted and board-designated funds), whether or not the organization is subject to the UPMIFA. The provisions of the FSP are effective for fiscal years ending after December 15, 2008. The School is currently assessing the impact of FSP SFAS 117-1. The adoption of FSP SFAS 117-1 is not expected to have a material impact on the School's financial position, changes in net assets or cash flows.

#### **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 and has appointed three of the School's board members in 2007 and in prior years. No board members were appointed for the fiscal year ended June 30, 2008.

## Beginning with Children Charter School

### Notes to Financial Statements

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#### Note 2. Related Party Transactions (continued)

In its role as institutional partner to the School, the Foundation shares staff and consultants in the areas of school governance, fiscal management, technology and research with the School. The School's allocated cost of such shared services was \$303,644 and \$377,078 for the fiscal years ended June 30, 2008 and 2007, respectively. 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, 2008; this amount is included in contributions and grants - private in the statement of activities.

At June 30, 2008, the amount due to the Foundation is \$88,872. Amounts due from/to related parties represent short-term timing differences of pending settlements.

#### Note 3. Property and Equipment, Net

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

	<u>2008</u>	<u>2007</u>	<u>Estimated Useful Life</u>
Furniture and fixtures	\$ 312,298	\$ 305,828	3 to 7 years
Leasehold improvements	376,081	376,081	5 years
Computer equipment	<u>168,600</u>	<u>159,081</u>	3 years
	856,979	840,990	
Less accumulated depreciation and amortization	<u>727,764</u>	<u>580,087</u>	
	<u>\$ 129,215</u>	<u>\$ 260,903</u>	

Depreciation and amortization expense was \$147,677 and \$162,122 for the years ended June 30, 2008 and 2007, respectively.

#### Note 4. 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 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.

## Beginning with Children Charter School

### Notes to Financial Statements

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#### **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 \$545,000 and \$448,000 for the years ended June 30, 2008 and 2007, 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 consist of contributions that are restricted for the subsequent year.

# 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**

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, 2008 and have issued our report thereon dated October 24, 2008. 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 24, 2008