

**BEGINNING WITH CHILDREN
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2007

BEGINNING WITH CHILDREN CHARTER SCHOOL

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GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Beginning with Children Charter School

We have audited the accompanying statements of financial position of Beginning with Children Charter School as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Beginning with Children Charter 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, 2007 and 2006, 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 25, 2007 on our consideration of Beginning with Children Charter 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 audits.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 25, 2007

BEGINNING WITH CHILDREN CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30,	2007	2006
ASSETS		
Cash	\$1,029,936	\$ 577,557
Grants and Accounts Receivable (due within one year)	239,028	324,877
Assets Designated by Board for Facilities and Personnel	62,108	62,108
Prepaid Expenses	5,232	
Property and Equipment, net	260,903	406,510
Due from Beginning with Children Foundation		179,912
Total Assets	\$1,597,207	\$1,550,964
LIABILITIES AND UNRESTRICTED NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$1,037,953	\$1,040,391
Due to Beginning with Children Foundation	826	
Total liabilities	1,038,779	1,040,391
Contingency		
Unrestricted Net Assets:		
Other	235,417	41,955
Net investment in plant	260,903	406,510
Board-designated	62,108	62,108
Total unrestricted net assets	558,428	510,573
Total Liabilities and Unrestricted Net Assets	\$1,597,207	\$1,550,964

See Notes to Financial Statements

BEGINNING WITH CHILDREN CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year ended June 30,	2007			2006	
	Unrestricted Net Assets				
	Operations		Investment		Unrestricted
	Board-	Other	in Plant	Total	Net Assets
	Designated				Total
Operating revenue:					
State and local per pupil operating revenue		\$4,686,377		\$4,686,377	\$4,203,136
Government grants		282,453		282,453	366,039
Total operating revenue		4,968,830		4,968,830	4,569,175
Expenses:					
Program services		4,451,379	\$ 156,764	4,608,143	4,668,603
General and administrative		443,862	5,358	449,220	498,371
Development		34,986		34,986	33,320
Total operating expenses		4,930,227	162,122	5,092,349	5,200,294
Loss on government-funded school operations		38,603	(162,122)	(123,519)	(631,119)
Other revenue:					
Contributions and grants - private		113,676		113,676	305,388
In-kind contributions					32,500
Interest income		57,698		57,698	29,943
Total other revenue		171,374		171,374	367,831
Interfund transfers		(16,515)	16,515		
Change in unrestricted net assets		193,462	(145,607)	47,855	(263,288)
Unrestricted net assets at beginning of year	\$ 62,108	41,955	406,510	510,573	773,861
Unrestricted net assets at end of year	\$ 62,108	\$ 235,417	\$ 260,903	\$ 558,428	\$ 510,573

See Notes to Financial Statements

BEGINNING WITH CHILDREN CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2007

	Program Services	General and Administrative	Development	Total
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
Total expenses	\$4,608,143	\$449,220	\$34,986	\$5,092,349

See Notes to Financial Statements

BEGINNING WITH CHILDREN CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2006

	Program Services	General and Administrative	Development	Total
Personnel services	\$2,766,228	\$159,395		\$2,925,623
Payroll taxes and employee benefits	1,063,573	53,510		1,117,083
Occupancy	73,542	13,312		86,854
Classroom instructional material and supplies	135,051			135,051
Trips and admissions	17,877			17,877
Research and evaluation	68,557			68,557
Staff development	72,297			72,297
Special needs	135,243			135,243
After school, summer school and substitutes	110,632			110,632
Consultants	40,223			40,223
Business services		128,260		128,260
Accountability		40,760		40,760
Development			\$33,320	33,320
Technology services		24,625		24,625
Accounting and legal fees		27,135		27,135
Office and technology supplies		32,625		32,625
Telephone		3,031		3,031
Postage and shipping		3,913		3,913
Miscellaneous and other expenses	24,796	7,076		31,872
Depreciation and amortization	160,584	4,729		165,313
Total expenses	\$4,668,603	\$498,371	\$33,320	\$5,200,294

See Notes to Financial Statements

BEGINNING WITH CHILDREN CHARTER SCHOOL

STATEMENT OF CASH FLOWS

Year ended June 30,	2007	2006
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 47,855	\$(263,288)
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	162,122	165,313
Changes in operating assets and liabilities:		
Decrease (increase) in grants and accounts receivable	85,849	(114,748)
Decrease (increase) in due from Beginning with Children Foundation	179,912	(179,912)
Increase in prepaid expenses	(5,232)	
Decrease in accounts payable and accrued expenses	(2,438)	(7,613)
Increase (decrease) in due to Beginning with Children Foundation	826	(6,235)
Net cash provided by (used in) operating activities	468,894	(406,483)
Cash flows from investing activities:		
Purchase of property and equipment	(16,515)	(56,901)
Cash used by board for unforeseen facility, personnel and other issues		155,000
Net cash provided by (used in) investing activities	(16,515)	98,099
Net increase (decrease) in cash	452,379	(308,384)
Cash at beginning of year	577,557	885,941
Cash at end of year	\$1,029,936	\$ 577,557

See Notes to Financial Statements

BEGINNING WITH CHILDREN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**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.

BEGINNING WITH CHILDREN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

Property and equipment, net, is recorded at cost. 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. At June 30, 2006, the board approved the use of \$155,000 of the reserve for retroactive salary increases associated with the United Federation of Teachers ("UFT") collective bargaining agreement.

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.

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 appoints three of the School's board members.

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 \$377,078 and \$422,670 for the fiscal years ended June 30, 2007 and 2006, respectively. The Foundation provided direct financial support for the School's programs and operations in the amount of \$177,000 for the fiscal year ended June 30, 2006; this amount is included in contributions and grants - private in the statement of activities.

At June 30, 2006, due from the Foundation consists of contributions receivable.

BEGINNING WITH CHILDREN CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS June 30, 2007

- 3. PROPERTY AND EQUIPMENT, NET :** Property and equipment, net, at cost, consists of the following:

	June 30,	2007	2006	Estimated Useful Life
Furniture and fixtures		\$305,828	\$304,313	3 to 7 years
Leasehold improvements		376,081	361,081	5 years
Computer equipment		159,081	159,081	3 years
		840,990	824,475	
Less accumulated depreciation and amortization		580,087	417,965	
		\$260,903	\$406,510	

Depreciation and amortization expense was \$162,122 and \$165,313 for the years ended June 30, 2007 and 2006, respectively.

- 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.
- 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.
- 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 \$448,000 and \$418,000 for the years ended June 30, 2007 and 2006, respectively.
- 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.



GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

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

We have audited the financial statements of Beginning with Children Charter School (the "School") as of and for the year ended June 30, 2007 and have issued our report thereon dated October 25, 2007. 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 and not to provide an opinion on the 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 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 accounting principles generally accepted in the United States of America 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.

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.

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 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 - 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 Department of Education of the City 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.

Goldstein Golub Kessler LLP

GOLDSTEIN GOLUB KESSLER LLP

October 25, 2007