

**Child Development Center  
of the Hamptons Charter  
School, Inc.**

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**Financial Statements**  
Year Ended June 30, 2008



# Child Development Center of the Hamptons Charter School, Inc.

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## Independent Auditors' Report

To the Board of Directors  
Child Development Center of the  
Hamptons Charter School, Inc.  
New York, New York

We have audited the accompanying statement of financial position of Child Development Center of the Hamptons Charter School, Inc. (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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the 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.

Information for the year ended June 30, 2007 is presented for comparative purposes only and was extracted from financial statements of the School for the year ended June 30, 2007, on which we expressed an unqualified opinion dated September 6, 2007.

*BDO Seidman, LLP*

September 5, 2008

# Child Development Center of the Hamptons Charter School, Inc.

## Statement of Financial Position (with comparative totals for 2007)

<i>June 30,</i>	2008	2007
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 162,748	\$ 311,259
Accounts receivable (net of allowance for doubtful accounts of \$195,373)	410,209	322,075
Due from affiliates (Note 8)	58,637	-
Prepaid expenses	12,808	908
Fixed assets, net (Notes 2 and 3)	1,392,701	869,662
	<b>\$2,037,103</b>	<b>\$1,503,904</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 248,692	\$ 280,667
Accrued salaries and fringes	21,313	2,452
Due to affiliate (Note 8)	1,379,647	835,511
Loan payable (Note 6)	244,599	244,599
<b>Total liabilities</b>	<b>1,894,251</b>	<b>1,363,229</b>
<b>Net assets:</b>		
Unrestricted	142,852	140,675
	<b>\$2,037,103</b>	<b>\$1,503,904</b>

*See accompanying notes to financial statements.*

# Child Development Center of the Hamptons Charter School, Inc.

## Statement of Activities (unrestricted) (with comparative totals for 2007)

<i>Year ended June 30,</i>	2008	2007
<b>Public support and revenue:</b>		
Public school district:		
Resident student enrollment	\$1,454,013	\$1,195,807
Students with disabilities enrollment	997,247	831,695
Legislative grants	-	21,382
Private grants, contributors and other	22,049	72,538
<b>Total public support and revenue</b>	<b>2,473,309</b>	<b>2,121,422</b>
<b>Expenses:</b>		
Program services:		
Regular education	775,895	600,160
Special education	1,216,933	1,060,471
Management and general	478,304	435,621
<b>Total expenses</b>	<b>2,471,132</b>	<b>2,096,252</b>
<b>Change in net assets</b>	<b>2,177</b>	<b>25,170</b>
<b>Net assets, beginning of year</b>	<b>140,675</b>	<b>115,505</b>
<b>Net assets, end of year</b>	<b>\$ 142,852</b>	<b>\$ 140,675</b>

*See accompanying notes to financial statements.*

# Child Development Center of the Hamptons Charter School, Inc.

## Statement of Functional Expenses (with comparative totals for 2007)

Year ended June 30,

	Program services			Support services	Total	
	Regular education	Special education	Total	Management and general	2008	2007
<b>Salaries and related expenses:</b>						
Salaries	\$379,143	\$ 861,032	\$1,240,175	\$186,437	\$1,426,612	\$1,147,662
Payroll taxes and fringe benefits	99,262	255,301	354,563	35,257	389,820	324,186
<b>Total salaries and related expenses</b>	<b>478,405</b>	<b>1,116,333</b>	<b>1,594,738</b>	<b>221,694</b>	<b>1,816,432</b>	<b>1,471,848</b>
<b>Other expenses:</b>						
Contracted services	7,360	99,233	106,593	32,302	138,895	112,622
Rent	77,604	-	77,604	8,623	86,227	123,078
Supplies	50,811	1,367	52,178	21,220	73,398	54,587
Moving & storage	-	-	-	-	-	350
Equipment	7,416	-	7,416	-	7,416	317
Utilities	31,008	-	31,008	-	31,008	-
Travel	6,372	-	6,372	3,445	34,453	39,069
Advertising	16,345	-	16,345	-	6,372	6,664
Food	2,726	-	2,726	-	18,733	38,207
Maintenance	28,746	-	28,746	-	2,726	6,679
Telephone	3,316	-	3,316	3,194	31,940	29,311
Staff training	7,425	-	7,425	-	3,316	6,100
Insurance	38,390	-	38,390	-	7,425	6,380
Bad debt expense	-	-	-	-	38,390	27,381
Postage	-	-	-	13,924	13,924	1,442
Lease/rental equipment	18,126	-	18,126	3,929	3,929	3,394
Dues & subscriptions	-	-	-	-	18,126	13,149
Interest expense	-	-	-	1,796	1,796	1,571
Bank service charges	-	-	-	31,468	31,468	24,720
Payroll service charges	-	-	-	92	92	1,186
Miscellaneous	1,845	-	1,845	522	522	5,881
Management fees	-	-	-	12,460	14,305	16,050
	-	-	-	75,570	75,570	60,115
<b>Total expenses before depreciation and amortization</b>	<b>775,895</b>	<b>1,216,933</b>	<b>1,992,828</b>	<b>432,627</b>	<b>2,425,455</b>	<b>2,050,101</b>
<b>Depreciation and amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,677</b>	<b>45,677</b>	<b>46,151</b>
<b>Total expenses</b>	<b>\$775,895</b>	<b>\$1,216,933</b>	<b>\$1,992,828</b>	<b>\$478,304</b>	<b>\$2,471,132</b>	<b>\$2,096,252</b>

*See accompanying notes to financial statements.*

# Child Development Center of the Hamptons Charter School, Inc.

## Statement of Cash Flows (with comparative totals for 2007)

<i>Yearended June 30,</i>	2008	2007
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,177	\$ 25,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	45,677	46,151
Bad debt expense	13,924	1,442
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(102,058)	(126,492)
Grants receivable	-	75,000
Due to from affiliates	(58,637)	-
Prepaid expenses and other assets	(11,900)	21,005
Increase(decrease):		
Accounts payable and accrued expenses	(31,975)	(663)
Accrued salaries and fringes	18,861	(224,280)
Due to affiliate	544,136	651,152
<b>Net cash provided by operating activities</b>	<b>420,205</b>	<b>468,485</b>
<b>Cash flows from investing activities:</b>		
Purchase of fixed assets	(568,716)	(214,433)
<b>Cash flows from financing activities:</b>		
Repayment of notes payable	-	(12,000)
<b>Net increase(decrease)in cash and cash equivalents</b>	<b>(148,511)</b>	<b>242,052</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>311,259</b>	<b>69,207</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 162,748</b>	<b>\$ 311,259</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 31,468	\$ 24,720

*See accompanying notes to financial statements.*

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

1. **Description of School**

Child Development Center of the Hamptons Charter School, Inc. (the "School"), an educational organization formed in 1999, is dedicated to providing parents and students with expanded choices in the types of educational opportunities that are available within the public school system and to improve student learning and achievement through the use of different and innovative teaching methods. All services are provided by New York State licensed and certified professionals, including special educators, speech pathologists, psychologists, social workers and physical and occupational therapists. The School is a New York State registered charity.
  
2. **Summary of Significant Accounting Policies**
  - (a) *Basis of Presentation*

The financial statements have been prepared on the accrual basis.
  
  - (b) *Financial Statement Presentation*

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

    - (i) **Permanently Restricted** –Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

(ii) **Temporarily Restricted**—Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.

(iii) **Unrestricted**—The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) *Cash and Cash Equivalents*

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

(d) *Fixed Assets*

Fixed assets are stated at cost. The School capitalizes expenditures for additions, renewals and betterments. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	5-7 years
Building improvements	25 years

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

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(e) *Contributions and Promises to Give*

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either unrestricted, temporarily restricted, or permanently restricted support.

Contributions of property and services are recorded at the fair market value of the property and services at the time of contribution.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

(f) *Third-party Reimbursement and Revenue Recognition*

The School receives substantially all its revenue for services provided to approved participants from third-party reimbursement primarily by the State Education Department of New York. These revenues are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the School.

Revenue is recognized as earned from third parties and when promises to give are received for contributions, special events and fundraising activities.

(g) *Income Taxes*

The School is incorporated under a charter granted by the Board of Regents on behalf of the New York State Education Department and is exempt from Federal, state and local income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the School has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the IRC. There was no unrelated business income for 2008.

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

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(h) *Use of Estimates*

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates.

(i) *Comparative Financial Information*

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2007 from which the summarized information was derived.

(j) *Reclassifications*

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications have no effect on net assets or the operating results of the prior year.

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

3. **Fixed Assets**                      The School's fixed assets consist of the following:

<i>June 30, 2008</i>	
Furniture and equipment	\$ 50,371
Computers	76,920
Leasehold improvements	1,466,107
	<u>1,593,398</u>
Less: Accumulated depreciation	<u>(200,697)</u>
	<u>\$1,392,701</u>

For the year ended June 30, 2008, depreciation expense was \$45,677.

4. **Revenue Concentrations**                      During the year ended June 30, 2008, the School earned 99% of its revenue from the State Education Department.
5. **Concentration of Credit Risk**                      Financial instruments which potentially subject the School to concentration of credit risk consist primarily of temporary cash investments in financial institutions which, from time to time, exceed the Federal Depository Insurance Coverage ("FDIC") limit.
6. **Loan Payable**                      The School has a \$300,000 loan payable, consisting of donor advised credit with FJC, Inc. The loan bears a floating interest rate of the prime rate plus 3%. The loan is guaranteed by the School and is collateralized by any vouchers or receivables payable to the School. The total amount outstanding as of June 30, 2008 was \$244,599. The School incurred \$31,135 in related interest expense during the year ended June 30, 2008.

# Child Development Center of the Hamptons Charter School, Inc.

## Notes to Financial Statements

7. **Commitments** The School is obligated under a lease agreement for the use of office space. The School has the option to renew certain leases upon expiration. The minimum future annual rental payments are as follows:

<i>Year ending June 30,</i>	
2009	\$123,077
2010	35,898
	<u>\$158,975</u>

8. **Transactions with Related Parties** The School engages in related party transactions with Services for the Underserved, Inc. ("SUS"), Child Development Center of the Hamptons, Inc. ("CDCH Preschool") and Child Development Center of the Hamptons Foundation ("CDCH Foundation"). The School is affiliated to SUS and CDCH Preschool. The School and the CDCH Foundation share common management. SUS is entitled to be reimbursed for costs incurred related to the School. Costs incurred for the year ended June 30, 2008 were \$75,570. The amount due to SUS was \$1,367,677 at June 30, 2008. The amount due to the CDCH Foundation was \$9,618 at June 30, 2008. The amount due from the CDCH Preschool was \$56,009 at June 30, 2008.

During fiscal year 2008, the School entered into a facilities cost sharing agreement with CDCH Preschool. Under the agreement, the School allocates approximately 27% of the facilities' related costs to CDCH Preschool. Total expense allocation for year ended June 30, 2008 was \$102,471.

**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 Directors  
Child Development Center of the  
Hamptons Charter School, Inc.

We have audited the financial statements of Child Development Center of the Hamptons Charter School, Inc. (the "School") as of and for the year ended June 30, 2008 and have issued our report thereon dated September 5, 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* 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 financing 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 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 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 Charter Schools Institute of the State University 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. However, this report is a matter of public record and its distribution is not limited.

*BDO Seidman, LLP*

Certified Public Accountants

New York, New York

September 5, 2008