BEGINNING WITH CHILDREN FOUNDATION, INC.
AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2009 AND 2008

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

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Certified
Public
Accountants

Rothstein, Kass & Company
1350 Avenue of the Americas
New York, NY 10019
tel 212.997.0500
fax 212.730.6892
www.rkco.com

Beverly Hills
Dallas
Denver
Grand Cayman
Irvine
New York
Roseland
San Francisco
Walnut Creek

Rothstein Kass

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Beginning with Children Foundation, Inc. and Affiliate

We have audited the accompanying combined statements of financial position of Beginning with Children Foundation, Inc. and Affiliate (a non-profit organization) (collectively, the "Foundation") as of June 30, 2009 and 2008, and the related combined statements of activities and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 combined 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 Foundation'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 combined 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2009 and 2008, and their activities and changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company

New York, New York
November 11, 2009

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,	2009	2008
ASSETS		
Cash and cash equivalents	$ 2,109,567	$ 1,382,955
Short-term investments	172,680	170,961
Pledges receivable	478,506	35,550
Prepaid expenses and other assets	19,010	91,645
Investments, designated by the board for charter school construction and facilities projects	2,000,000	2,000,000
Property and equipment, net of accumulated depreciation and amortization of $446,927 and $383,612, respectively	202,908	266,223
Long-term investments	1,325,062	1,231,737
	$ 6,307,733	$ 5,179,071
LIABILITIES AND NET ASSETS		
Liabilities, accounts payable and accrued expenses	$ 203,045	$ 288,669
Net assets		
Unrestricted		
Board-designated net assets	2,060,000	2,131,738
Investment in plant	183,843	232,679
Other	2,385,783	1,400,985
Total unrestricted	4,629,626	3,765,402
Temporarily restricted	210,000	25,000
Permanently restricted	1,265,062	1,100,000
Total net assets	6,104,688	4,890,402
	$ 6,307,733	$ 5,179,071

See accompanying notes to combined financial statements.

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2009

	Unrestricted					
	Board Designated	**Investment in Plant**	**Other**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support						
Contributions	$ -	$ -	$ 2,870,688	$ 210,000	$ 250,000	$ 3,330,688
Release from restrictions	-	-	25,000	(25,000)	-	-
Service fee revenue	-	-	666,609	-	-	666,609
Fundraising revenue	-	-	37,055	-	-	37,055
Interest and other income	18,003	-	16,134	-	21,316	55,453
Realized and unrealized loss on investments	(89,741)	-	(107)	-	(106,254)	(196,102)
Total revenues, gains and other support	(71,738)	-	3,615,379	185,000	165,062	3,893,703
Expenses						
Operating programs and grants	-	-	2,128,010	-	-	2,128,010
General and administrative	-	48,836	232,280	-	-	281,116
Development	-	-	270,291	-	-	270,291
Total expenses	-	48,836	2,630,581	-	-	2,679,417
Change in net assets	(71,738)	(48,836)	984,798	185,000	165,062	1,214,286
Net assets						
Beginning of year	2,131,738	232,679	1,400,985	25,000	1,100,000	4,890,402
End of year	$ 2,060,000	$ 183,843	$ 2,385,783	$ 210,000	$ 1,265,062	$ 6,104,688

See accompanying notes to combined financial statements.

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2008

	Unrestricted					
	Board Designated	**Investment in Plant**	**Other**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support						
Contributions	$ -	$ -	$ 1,619,117	$ 25,000	$ -	$ 1,644,117
Release from restrictions	-	-	360,000	(360,000)	-	-
Fundraising revenue	-	-	43,288	-	-	43,288
Interest and other income	43,581	-	135,944	-	-	179,525
Realized and unrealized loss on investments	(86,628)	-	(634)	-	-	(87,262)
Total revenues, gains and other support	(43,047)	-	2,157,715	(335,000)	-	1,779,668
Expenses						
Operating programs and grants	-	-	2,261,141	-	-	2,261,141
General and administrative	-	49,928	254,624	-	-	304,552
Development	-	-	211,045	-	-	211,045
Total expenses	-	49,928	2,726,810	-	-	2,776,738
Change in net assets before board-designated net asset transfer	(43,047)	(49,928)	(569,095)	(335,000)	-	(997,070)
Board-designated net asset transfer	(55,000)	-	55,000	-	-	-
Change in net assets	(98,047)	(49,928)	(514,095)	(335,000)	-	(997,070)
Net assets						
Beginning of year	2,229,785	282,607	1,915,080	360,000	1,100,000	5,887,472
End of year	$ 2,131,738	$ 232,679	$ 1,400,985	$ 25,000	$ 1,100,000	$ 4,890,402

See accompanying notes to combined financial statements.

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30,	2009	2008
Cash flows from operating activities		
Contributions and fundraising collections	$ 2,464,787	$ 1,633,405
Service fee collections	666,609	-
Interest and other income	55,453	179,889
Cash paid for program services	(2,034,872)	(2,145,593)
Cash paid for supporting services	(594,219)	(480,487)
Net cash provided by (used in) operating activities	557,758	(812,786)
Cash flows from investing activities		
Cash used to purchase investments	(291,146)	(191,248)
Cash paid for furniture and equipment	-	(34,251)
Cash proceeds from sales of furniture and equipment	-	6,036
Cash proceeds from sales of investments	-	164,366
Net cash used in investing activities	(291,146)	(55,097)
Cash provided by financing activities, proceeds from temporarily and permanently restricted contributions	460,000	25,000
Net increase (decrease) in cash and cash equivalents	726,612	(842,883)
Cash and cash equivalents		
Beginning of year	1,382,955	2,225,838
End of year	$ 2,109,567	$ 1,382,955
Reconciliation of change in net assets to net cash (provided by) used in operating activities:		
Change in net assets	$ 1,214,286	$ (997,070)
Adjustments:		
Net realized and unrealized loss on investments	196,102	87,262
Loss on disposal of fixed assets	-	364
Depreciation and amortization	63,315	67,095
Proceeds from temporarily and permanently restricted contributions	(460,000)	(25,000)
Increase in pledges receivable	(442,956)	(29,000)
Decrease (increase) in prepaid expenses and other current assets	72,635	(29,694)
Increase (decrease) in accounts payable and accrued expenses	(85,624)	113,257
Total adjustments to change in net assets	(656,528)	184,284
Net cash provided by (used in) operating activities	$ 557,758	$ (812,786)

See accompanying notes to combined financial statements.

1. Nature of operations

Beginning with Children Foundation, Inc. and Affiliate (collectively, the “Foundation”) is a non-profit organization dedicated to improving the educational opportunities of urban children through the creation of autonomous, high-performing public schools. Since inception in 1990, the Foundation has worked to effect positive change in the New York City public school system through the belief that *all children can learn*. It currently works in partnership with two charter schools in Brooklyn, the Beginning with Children Charter School (“BwCCS”) and the Community Partnership Charter School (“CPCS”), which are designed to nurture academic achievement and individual growth by addressing the needs of the whole child. More than 1,300 children have benefited from these unique learning environments, where personalized instruction, dynamic teaching strategies, and analytical assessment help students master a rigorous academic curriculum and develop a life-long love of learning. After students graduate from CPCS and BwCCS, the Foundation Alumni Program continues to nurture their development and expand their opportunities. The program provides support to over 295 alumni including guidance in the college admissions process, mentoring and tutoring to spur academic and personal development, and training and placement in professional summer internships.

Both BwCCS and CPCS are public schools that receive mandated per capita New York State public funding. Monies raised by the Foundation augment each school through program and facility support and school design services, in addition to supporting the Foundation's broader outreach and dissemination efforts.

2. Summary of significant accounting policies

Basis of Presentation and Combination

The accompanying combined financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and include the accounts of the Foundation and Beginning with Children Facilities, Inc. (“Facilities”), an entity under common ownership and control. While their statements have been combined, the financial position, results of operations and cash flows do not represent those of a single legal entity. All material inter-organization transactions have been eliminated in combination.

Accounting for Contributions

The Foundation complies with Financial Accounting Standards Board (“FASB”) Statements No. 116 and 117, "Accounting for Contributions" and "Financial Statements of Not-for-Profit Organizations." These statements require reporting revenue and net assets by class as permanently restricted, temporarily restricted and unrestricted.

Classes of Net Assets

Separate net asset accounts are maintained to ensure that limitations or restrictions placed on contributions, endowments and gifts are used for their intended purpose. The Foundation uses the following classes of net assets:

- Unrestricted net assets are general contributions to the Foundation to support operating, general and administrative expenses and capital programs. Contributions received with donor restrictions are also included in this class to the extent the restrictions are met in the same fiscal year as the contribution.

2. Summary of significant accounting policies (continued)

Classes of Net Assets (continued)

- Board-designated net assets consists of $2,000,000 set aside to provide a fiscally prudent reserve to address critical facility needs at charter schools which the Foundation supports, and a $60,000 investment in land held as a board designated endowment. In 2006, the Board of Directors established a policy of re-investing the earnings on endowment funds in long-term investments with the goal of ensuring the long-term fiscal stability of the Foundation. An amount representing a 5% minimum rate of return on endowment assets will be released by the board to operations each fiscal year. For the fiscal year ended June 30, 2009 the endowment assets decreased in value and no assets were released by the board to operations.

- Investment in plant consists of fixed assets purchased with funds released from board-designated net assets for the office relocation and renovation project during the fiscal year ended June 30, 2005. Depreciation and amortization expense related to these fixed assets amounted to $48,836 and $49,928 for the years ended June 30, 2009 and 2008, respectively.

- Temporarily restricted net assets consist of contributions restricted by the donors for use in specified programs or in particular time periods and were available for the following purposes at June 30, 2009 and 2008:

	2009	2008
Donor funds designated for subsequent year alumni program	$ 25,000	$ 25,000
Donor funds designated for fiscal 2009 - 2010 operations	185,000	-
	$ 210,000	$ 25,000

- Permanently restricted net assets consist of endowment fund contributions to be held in perpetuity. During the fiscal year ended June 30, 2009, the endowment investments decreased in value in the amount of $84,938.

Cash and Cash Equivalents

The Foundation has defined cash and cash equivalents as cash and short-term, highly liquid investments with maturities of three months or less when acquired.

Concentration of Credit Risk

The Foundation maintains cash balances in certain financial institutions which, at times may exceed the federally insured limits. The Foundation has not experienced any losses on these accounts and believes it is not subject to any significant credit risk.

2. Summary of significant accounting policies (continued)

Use of Estimates

The preparation of combined 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 and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and amortization. It is the Foundation's policy to capitalize property and equipment which have unit costs of over $1,000 and an estimated useful life greater than one year. Depreciation is computed using the declining balance method over the estimated useful lives of the respective assets ranging from five to seven years. Amortization of leasehold improvements is computed using the straight line method over the shorter of the estimated useful life of the asset or the ten-year life of the lease. Maintenance and repairs are charged to expense and major renewals and betterments are capitalized.

Investments in Securities

The Foundation adopted the provisions of Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"), effective July 1, 2008. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Foundation uses various valuation approaches. SFAS No. 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

> *Level 1* - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
>
> *Level 2* - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
>
> *Level 3* - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

2. Summary of significant accounting policies (continued)

Investments in Securities (continued)

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for securities categorized in Level 3.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety fails, is determined based on the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Foundation's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Foundation uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The Foundation values investments in securities and securities sold short that are freely tradable and are listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.

Tax Status

As an organization described in Section 509(a)(1) and 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), the Foundation is exempt from federal income taxes and is classified as a public charity. Facilities is a supporting organization described in Section 509(a)(3) and 501(c)(3) of the Code which is also exempt from federal income taxes.

3. Fair value measurements

The Foundation's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note 2 for a discussion of the Foundation's policies.

The following table presents information about the Foundation's assets measured at fair value as of June 30, 2009:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2009
Assets				
Investments in money market, at fair value (included in short-term investments)	$ 172,680	$ -	$ -	$ 172,680
Investments in certificates of deposit, at fair value (included in investments)	2,000,000	-	-	2,000,000
Investments in mutual funds, at fair value (included in long-term investments)	1,265,062	-	-	1,265,062
Investments in land (included in long-term investments)	-	-	60,000	60,000
	$ 3,437,742	$ -	$ 60,000	$ 3,497,742

Changes in Level 3 assets measured at fair value for the year ended June 30, 2009:

	Beginning Balance July 1, 2008	Realized & Unrealized Gains (Losses)	Purchases Sales and Settlements	Ending Balance June 30, 2009	Change in Unrealized Gains (Losses) for Investments Still Held at June 30, 2009
Assets					
Investments in land (included in long-term investments)	$ 60,000	$ -	$ -	$ 60,000	$ -

4. Related parties

The Foundation had an agreement to share facilities, accounting, and administrative services with Joseph H. Reich & Co., Inc. Joseph H. Reich, a founder of the Foundation, is the sole owner of Joseph H. Reich & Co., Inc. The Foundation is a named licensee under Joseph H. Reich & Co., Inc.'s lease for office space. The lease covers the term February 16, 2004 through July 31, 2014 at a minimum annual base rent of $288,330 for the first five years and $304,800 for the remaining balance of the lease. The Foundation was charged for its pro-rata share of the facility and other costs based upon its pro-rata occupancy of the space, determined on an annual basis. The net cost of the facilities and services charged by Joseph H. Reich & Co., Inc. under this agreement was $112,552 and $104,353 for the years ended June 30, 2009 and 2008, respectively. Joseph H. Reich & Co., Inc. owed the Foundation $69 and $500 at June 30, 2009 and 2008, respectively and these amounts are included in prepaid expenses and other assets in the accompanying combined statements of financial position. Subsequent to June 30, 2009, the Foundation entered into a licensing agreement with Joseph H. Reich & Co., Inc. for their pro-rata share of the office facility cost (see Note 8).

As educational manager to charter schools during the fiscal year ended June 30, 2009, the Foundation entered into a Memorandum of Understanding (MOU) agreement between BwCCS and CPCS. Pursuant to the terms of the MOU agreement, the schools paid a service fee to the Foundation in the amounts of $404,505 for BwCCS and $262,104 for CPCS. The Foundation supported the schools 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. CPCS' allocable costs for these shared services was $214,450 and BwCCS' allocable costs were $303,644. In addition, the Foundation provided a direct grant of $21,133 to support BwCCS' programs and to defray an operating deficit for the year ended June 30, 2008. Amounts due from CPCS were $699 and $113 at June 30, 2009 and 2008, respectively. Amount due from BwCCS was $88,872 at June 30, 2008. These amounts are included in other current assets in the accompanying combined statements of financial position. At June 30, 2009, the Foundation provided a library grant to CPCS and BwCCS in the amount of $40,000 and $60,000, respectively.

5. Property and equipment

Property and equipment, at cost, consist of the following at of June 30, 2009 and 2008:

	2009	2008
Furniture and fixtures	$ 113,250	$ 113,250
Leasehold improvements	279,384	279,384
Technology equipment	257,201	257,201
	649,835	649,835
Less accumulated depreciation and amortization	446,927	383,612
	$ 202,908	$ 266,223

Depreciation and amortization expense amounted to $63,315 and $67,095 for the years ended June 30, 2009 and 2008, respectively.

6. Commitments

The Foundation rents their office facility under a license agreement expiring July 2014. The license agreement provides for minimum annual rent, plus certain other fees, as defined in the agreement.

The aggregate future minimum annual license payments are as follows:

Year ending June 30,	
2010	$ 163,000
2011	163,000
2012	163,000
2013	163,000
2014	163,000
Thereafter	14,000
	$ 829,000

Pro-rata rent expense, included within license fees, amounted to $182,001 and $208,045 for the years ended June 30, 2009 and 2008, respectively.

7. Employee benefit plan

The Foundation maintains a defined contribution plan under Section 401(k) of the Code covering all eligible employees. Under the plan, the Foundation may elect on a discretionary basis to provide matching contributions. In addition, the Foundation may elect on a discretionary basis to contribute a percentage of all qualified employees' compensation to the profit-sharing component of the plan. The amounts charged to operations for the total employer contributions to the plan were $175,056 and $203,175, for the years ended June 30, 2009 and 2008, respectively. Employee benefit plan contributions payable amounted to $40,799 and $49,283 at June 30, 2009 and 2008, respectively and are included in accounts payable and accrued expenses in the accompanying combined statements of financial position.

8. Subsequent event

In October 2009, the Foundation entered into a license agreement with Joseph H. Reich & Co., Inc., for the Foundation's percentage of the shared office facility costs. This agreement codified the cost sharing agreement in place since the inception of the lease in February 2004.