BEGINNING WITH CHILDREN FOUNDATION, INC.
AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2012 AND 2011

Rothstein Kass

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

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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, 2012 and 2011, 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, 2012 and 2011, and its 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

New York, New York
January 22, 2013

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,	2012	2011
ASSETS		
Cash and cash equivalents	$ 952,362	$ 2,134,027
Short-term investments	446,331	310,202
Pledges receivable	48,107	21,164
Due from related parties and other assets	121,274	69,170
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 $611,524 and $552,546, respectively	117,867	158,716
Long-term investments	2,337,957	2,333,819
	$ 6,023,898	$ 7,027,098
LIABILITIES AND NET ASSETS		
Liabilities, accounts payable and accrued expenses	$ 156,227	$ 155,367
Net assets		
Unrestricted		
Board-designated net assets	2,212,956	2,208,818
Investment in plant	72,980	105,519
Other	1,441,735	2,417,394
Total unrestricted	3,727,671	4,731,731
Temporarily restricted	15,000	15,000
Permanently restricted	2,125,000	2,125,000
Total net assets	5,867,671	6,871,731
	$ 6,023,898	$ 7,027,098

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, 2012

	Unrestricted					
	Board Designated	**Investment in Plant**	**Other**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support						
Contributions	$ -	$ -	$ 1,170,826	$ 15,000	$ -	$ 1,185,826
Release from restrictions	-	-	15,000	(15,000)	-	-
Service fee revenue	-	-	966,875	-	-	966,875
Interest and other income	2,614	-	67,357	-	-	69,971
Realized and unrealized gain on investments	1,524	-	39,122	-	-	40,646
Total revenues, gains and other support	4,138	-	2,259,180	-	-	2,263,318
Expenses						
Operating programs and grants	-	-	2,612,116	-	-	2,612,116
General and administrative	-	32,539	307,438	-	-	339,977
Development	-	-	315,285	-	-	315,285
Total expenses	-	32,539	3,234,839	-	-	3,267,378
Change in net assets	4,138	(32,539)	(975,659)	-	-	(1,004,060)
Net assets						
Beginning of year	2,208,818	105,519	2,417,394	15,000	2,125,000	6,871,731
End of year	$ 2,212,956	$ 72,980	$ 1,441,735	$ 15,000	$ 2,125,000	$ 5,867,671

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, 2011

	Unrestricted					
	Board Designated	**Investment in Plant**	**Other**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support						
Contributions	$ -	$ -	$ 1,228,821	$ 15,000	$ 575,000	$ 1,818,821
Release from restrictions	(60,000)	-	85,000	(25,000)	-	-
Service fee revenue	-	-	758,793	-	-	758,793
Fundraising revenue	-	-	23,708	-	-	23,708
Interest and other income	42,646	-	23,218	-	-	65,864
Realized and unrealized gain on investments	166,172	-	90,590	-	-	256,762
Total revenues, gains and other support	148,818	-	2,210,130	(10,000)	575,000	2,923,948
Expenses						
Operating programs and grants	-	-	2,627,628	-	-	2,627,628
General and administrative	-	36,087	200,270	-	-	236,357
Development	-	-	208,990	-	-	208,990
Total expenses	-	36,087	3,036,888	-	-	3,072,975
Change in net assets	148,818	(36,087)	(826,758)	(10,000)	575,000	(149,027)
Net assets						
Beginning of year	2,060,000	141,606	3,244,152	25,000	1,550,000	7,020,758
End of year	$ 2,208,818	$ 105,519	$ 2,417,394	$ 15,000	$ 2,125,000	$ 6,871,731

BEGINNING WITH CHILDREN FOUNDATION, INC. AND AFFILIATE

COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30,	2012	2011
Cash flows from operating activities		
Contributions and fundraising collections	$ 1,143,883	$ 1,415,744
Service fee collections	966,875	758,793
Interest and other income	69,971	65,864
Cash paid for program services	(2,604,812)	(2,632,682)
Cash paid for supporting services	(654,832)	(479,840)
Net cash used in operating activities	(1,078,915)	(872,121)
Cash flows from investing activities		
Cash used to purchase investments	(99,621)	(544,598)
Cash paid for technology equipment	(18,129)	(58,264)
Net cash used in investing activities	(117,750)	(602,862)
Cash provided by financing activity, proceeds from temporarily and permanently restricted contributions	15,000	590,000
Net decrease in cash and cash equivalents	(1,181,665)	(884,983)
Cash and cash equivalents		
Beginning of year	2,134,027	3,019,010
End of year	$ 952,362	$ 2,134,027
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ (1,004,060)	$ (149,027)
Adjustments:		
Net realized and unrealized gain on investments	(40,646)	(256,762)
Depreciation and amortization	58,978	54,177
Proceeds from temporarily and permanently restricted contributions	(15,000)	(590,000)
(Increase) decrease in pledges receivable	(26,943)	163,215
Increase in due from related parties and other assets	(52,104)	(24,739)
Decrease in accounts payable and accrued expenses	860	(68,985)
Total adjustments to change in net assets	(74,855)	(723,094)
Net cash used in operating activities	$ (1,078,915)	$ (872,121)

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 its charter schools in Brooklyn, the Beginning with Children Charter School (“BwCCS”), the Community Partnership Charter School (“CPCS”), and its newest charter school, the Beginning with Children Charter School 2 (“BwCCS 2”), which opened in September 2012. The schools are designed to nurture academic achievement and individual growth by addressing the needs of the whole child. More than 1,500 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, BwCCS, and BwCCS 2, the Foundation Alumni Program continues to nurture their development and expand their opportunities. The program provides support to over 320 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.

BwCCS, CPCS, and BwCCS 2 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 (“GAAP”), 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.

These combined financial statements were approved by management and available for issuance on January 22, 2013. Subsequent events have been evaluated through this date.

Accounting for Contributions

In accordance with GAAP, these statements require reporting revenue and net assets by class as permanently restricted, temporarily restricted and unrestricted.

Pledges Receivable

The Foundation records pledges receivable at cost less an allowance for doubtful accounts. On a periodic basis, the Foundation evaluates its pledges receivable and establishes an allowance for doubtful accounts, if necessary, based on the history of collections. No allowance for doubtful accounts was deemed necessary as of June 30, 2012 and 2011.

2. Summary of significant accounting policies (continued)

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 year as the contribution.

- 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. 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 up to a 5% rate of return on endowment assets will be released by the board to operations each year. For the years ended June 30, 2012 and June 30, 2011, an amount equal to 5% of endowment earnings was released 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 year ended June 30, 2005. Depreciation and amortization expense related to these fixed assets amounted to $32,539 and $36,087 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011:

	2012	2011
Donor funds designated for subsequent year alumni program	$ 15,000	$ 15,000

- Permanently restricted net assets consist of endowment fund contributions to be held in perpetuity.

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.

2. Summary of significant accounting policies (continued)

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.

Use of Estimates

The preparation of combined financial statements in conformity with GAAP 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

In accordance with GAAP, 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. In accordance with GAAP, 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 falls 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 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 recorded at fair value have been categorized based upon a fair value hierarchy in accordance with GAAP. 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, 2012:

	Level 1	Level 2	Level 3	Total
Assets				
Investments in money market, at fair value (included in cash and cash equivalents)	$ 638,833	$ -	$ -	$ 638,833
Investments in money market, at fair value (included in short-term investments)	446,331	-	-	446,331
Investments in money market, at fair value (included in investments)	2,000,000	-	-	2,000,000
Investments in mutual funds, at fair value (included in long-term investments)	2,337,957	-	-	2,337,957
	$ 5,423,121	$ -	$ -	$ 5,423,121

The following table presents information about the Foundation's assets measured at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Investments in money market, at fair value (included in cash and cash equivalents)	$ 2,006,951	$ -	$ -	$ 2,006,951
Investments in money market, at fair value (included in short-term investments)	310,202	-	-	310,202
Investments in money market, at fair value (included in investments)	2,000,000	-	-	2,000,000
Investments in mutual funds, at fair value (included in long-term investments)	2,333,819	-	-	2,333,819
	$ 6,650,972	$ -	$ -	$ 6,650,972

4. Related parties

The Foundation had an agreement to share facilities, accounting, and administrative services with Centennial Energy Management, Inc. (formerly known as Joseph H. Reich & Co., Inc.). Joseph H. Reich, a founder of the Foundation, is the sole owner of Centennial Energy Management, Inc. The Foundation is a named licensee under Centennial Energy Management, 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. In October 2009, the Foundation entered into a license agreement with Centennial Energy Management, Inc. to codify the cost sharing agreement since the inception of the lease. The net cost of the facilities and services charged by Centennial Energy Management, Inc. under this agreement was $168,574 and $133,662 for the years ended June 30, 2012 and 2011, respectively. The Foundation owed Centennial Energy Management, Inc. $0 and $2,273 at June 30, 2012 and 2011, respectively. These amounts are included in due from related parties and other assets in the accompanying combined statements of financial position.

As educational manager to charter schools, the Foundation entered into a Memorandum of Understanding (MOU) agreement with each of BwCCS and CPCS. Pursuant to the terms of the MOU agreement, the schools paid a service fee to the Foundation in the amounts of $500,693 and $433,782 for BwCCS and $466,182 and $325,011 for CPCS for the years ended June 30, 2012 and 2011, respectively. 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.

The amount due from BwCCS was $26,382 and $28,712 at June 30, 2012 and 2011, respectively. The amount due to CPCS was $7,506 at June 30, 2012. The amount due from CPCS was $28,059 at June 30, 2011. These amounts are included in due from related parties and other assets in the accompanying combined statements of financial position.

The Foundation has a due from BwCCS 2 of $101,843 and $0 at June 30, 2012 and 2011, respectively, which was a loan to pay for start up costs of the new charter school. This amount is included in due from related parties and other assets in the accompanying combined statements of financial position.

5. Property and equipment

Property and equipment, at cost, consists of the following at of June 30, 2012 and 2011:

	2012	2011
Furniture and fixtures	$ 113,250	$ 113,250
Leasehold improvements	279,384	279,384
Technology equipment	336,757	318,628
	729,391	711,262
Less accumulated depreciation and amortization	611,524	552,546
	$ 117,867	$ 158,716

Depreciation and amortization expense amounted to $58,978 and $54,177 for the years ended June 30, 2012 and 2011, respectively.

6. Commitments

Operating Leases

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,	
2013	$ 163,000
2014	163,000
2015	14,000
	$ 340,000

Pro-rata rent expense, included within license fees, amounted to $212,792 and $205,382 for the years ended June 30, 2012 and 2011, respectively.

Legal Matters

The Foundation is involved in claims and litigation incidental to its business and management believes that any liability that may potentially result upon resolution of such matters will not have a material impact on the financial position of the Foundation.

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 $80,050 and $226,463, for the years ended June 30, 2012 and 2011, respectively. Employee benefit plan contributions payable amounted to $40,024 and $40,026 at June 30, 2012 and 2011, respectively, and are included in accounts payable and accrued expenses in the accompanying combined statements of financial position.