

McGladrey & Pullen

Certified Public Accountants

Hyde Leadership Charter School

Financial Report

June 30, 2009

Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 11

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Hyde Leadership Charter School
Bronx, New York

We have audited the accompanying statement of financial position of Hyde Leadership Charter School (the "School") as of June 30, 2009, 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 prior-year summarized comparative information has been derived from the School's 2008 financial statements and, in our report dated October 28, 2008, we 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. 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 financial statements referred to above present fairly, in all material respects, the financial position of Hyde Leadership Charter School, as of June 30, 2009, 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.

McGladrey & Pullen, LLP

New York, New York
October 29, 2009

Hyde Leadership Charter School

Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
ASSETS		
Cash and Cash Equivalents	\$ 737,384	\$ 971,077
Investments	1,084,664	-
Grants, Contracts and Other Receivables	403,965	319,581
Prepaid Expenses and Other Assets	12,630	11,531
Property and Equipment, net	<u>90,951</u>	<u>42,213</u>
Total assets	<u><u>\$ 2,329,594</u></u>	<u><u>\$ 1,344,402</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 480,282	\$ 410,243
Refundable advances	<u>18,772</u>	<u>23,237</u>
Total liabilities	<u>499,054</u>	<u>433,480</u>
Commitments and Contingency		
Net Assets:		
Unrestricted	1,830,540	849,965
Temporarily restricted	<u>-</u>	<u>60,957</u>
Total net assets	<u>1,830,540</u>	<u>910,922</u>
Total liabilities and net assets	<u><u>\$ 2,329,594</u></u>	<u><u>\$ 1,344,402</u></u>

See Notes to Financial Statements.

Hyde Leadership Charter School

Statements of Activities

(with summarized financial information for the year ended June 30, 2008)

Years Ended June 30, 2009 and 2008

	2009		2008	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Summarized Total</u>
Operating Revenue:				
State and local per pupil operating revenue	\$ 5,776,894	\$ -	\$ 5,776,894	\$ 3,723,714
Government grants	727,171	-	727,171	533,002
Total operating revenue	<u>6,504,065</u>	<u>-</u>	<u>6,504,065</u>	<u>4,256,716</u>
Expenses:				
Program services	5,603,144	-	5,603,144	3,703,728
Management and general	285,564	-	285,564	-
Development	52,826	-	52,826	297,243
Total operating expenses	<u>5,941,534</u>	<u>-</u>	<u>5,941,534</u>	<u>4,000,971</u>
Income from School operations	<u>562,531</u>	<u>-</u>	<u>562,531</u>	<u>255,745</u>
Support and Other Revenue:				
Contributions	126,953	176,917	303,870	282,798
Other income	49,482	-	49,482	65,046
In-kind revenue	3,735	-	3,735	37,493
Net assets released from program restrictions	237,874	(237,874)	-	-
Total support and other revenue	<u>418,044</u>	<u>(60,957)</u>	<u>357,087</u>	<u>385,337</u>
Change in net assets	<u>980,575</u>	<u>(60,957)</u>	<u>919,618</u>	<u>641,082</u>
Net Assets:				
Beginning	<u>849,965</u>	<u>60,957</u>	<u>910,922</u>	<u>269,840</u>
Ending	<u>\$ 1,830,540</u>	<u>\$ -</u>	<u>\$ 1,830,540</u>	<u>\$ 910,922</u>

See Notes to Financial Statements.

Hyde Leadership Charter School

Statements of Functional Expenses

(with summarized financial information for the year ended June 30, 2008)

Years Ended June 30, 2009 and 2008

	2009			2008	
	Program Services	Management and General	Development	Total	Summarized Total
Salaries	\$ 3,684,058	\$ 195,961	\$ 39,192	\$ 3,919,211	\$ 2,611,590
Payroll taxes and employee benefits	826,956	43,987	8,797	879,740	588,705
Instructional supplies and equipment	286,698	-	-	286,698	255,273
Professional fees	-	21,675	-	21,675	36,075
Instructional support	87,170	-	-	87,170	43,811
Professional development	143,269	1,450	290	145,009	89,501
Business insurance	31,630	1,682	337	33,649	29,910
Telephone	10,442	555	111	11,108	9,364
Repairs and maintenance	8,026	-	-	8,026	22,685
Food services	8,512	-	-	8,512	7,253
Management fee	155,809	8,288	1,658	165,755	109,938
Printing and postage	39,929	2,124	425	42,478	26,699
Bank and payroll charges	35,736	1,901	380	38,017	23,860
Retreats, conferences and transportation	91,784	4,882	977	97,643	42,085
Marketing and recruitment	10,167	-	-	10,167	26,893
Technology supplies and services - nonclassroom	32,599	772	201	33,572	19,671
Noncapitalized office furniture	5,312	54	11	5,377	1,996
Other administrative support	51,788	524	105	52,417	4,185
Office supplies	35,427	359	72	35,858	24,968
Depreciation expense	17,755	944	189	18,888	2,657
Miscellaneous expenses	40,077	406	81	40,564	23,852
Total expenses	\$ 5,603,144	\$ 285,564	\$ 52,826	\$ 5,941,534	\$ 4,000,971

See Notes to Financial Statements.

Hyde Leadership Charter School

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities:		
Change in net assets	\$ 919,618	\$ 641,082
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,888	2,657
Changes in operating assets and liabilities:		
Increase in grants, contracts and other receivables	(84,384)	(255,352)
(Increase) decrease in prepaid expenses and other assets	(1,099)	811
Increase in accounts payable and accrued expenses	65,039	212,708
(Decrease) increase in refundable advances	(4,465)	21,452
	<u>913,597</u>	<u>623,358</u>
Net cash provided by operating activities	913,597	623,358
Cash Flows From Investing Activities:		
Additions to property and equipment	(62,626)	-
Purchase of investments	(1,084,664)	-
	<u>(1,147,290)</u>	<u>-</u>
Cash used in investing activities	(1,147,290)	-
Net (decrease) increase in cash and cash equivalents	(233,693)	623,358
Cash and Cash Equivalents:		
Beginning	<u>971,077</u>	<u>347,719</u>
Ending	<u><u>\$ 737,384</u></u>	<u><u>\$ 971,077</u></u>
Supplemental Schedule of Noncash Investing Activities:		
Additions in construction-in-progress included in accounts payable	<u><u>\$ 5,000</u></u>	<u><u>\$ -</u></u>

See Notes to Financial Statements.

Hyde Leadership Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies

Hyde Leadership Charter School (the "School") is an educational corporation that commenced operations as a charter school in the borough of The Bronx, New York City in July 2006. On January 10, 2006, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The School's mission is to develop the deeper character and unique potential of each student. Using the Hyde process for family-based character education, the School unites parents, teachers and students in helping each student achieve their best academically as well as in sports, the arts and the community.

In fiscal year 2008, the School operated classes for students in kindergarten and grades 1, 6 and 7. In fiscal year 2009, the School operated classes for students in kindergarten and grades 1, 2, 6, 7 and 8.

The New York City Department of Education (the "NYCDOE") provides free 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 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 statements 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. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from state and local governments resulting from the School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the School when qualifying expenditures are incurred and billable to the government.

The School recognizes contributed services in accordance with Statement of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services: (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the School if they had not been provided by contribution, or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the School to develop its academic programs and to serve on the School's board of trustees. The value of this contributed time is not reflected in these financial statements 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 at two financial institutions which, at times, may exceed federally insured limits. The School has not experienced any losses on these accounts.

Hyde Leadership Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

The School maintains an escrow account with a minimum balance requirement of \$70,000 as of August 4, 2008. The minimum balance requirement prior to August 4, 2008 was \$25,000. The minimum balance requirement is at all times based on the School's charter documents. This account had a balance of \$70,082 and \$25,439 at June 30, 2009 and 2008, respectively, which is included in cash and cash equivalents in the accompanying financial statements.

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$2,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Property and equipment acquired with certain government contract funds are recorded as expenses pursuant to the terms of the contract.

Expenses are classified according to the functional categories for which they are incurred, as follows:

Program Services - represent expenses directly associated with general education and special education for certain students requiring additional attention and guidance.

Management and General - represent expenses related to the overall administration and operation of the School that are not associated with any program services.

The accompanying statement of activities and statement of functional expenses include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

The preparation of 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes: The Financial Accounting Standards Board (the "FASB") has issued FASB 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 recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return including positions that the School is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The School presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*.

The School has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for certain nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The School will be required to adopt FIN 48 in its

Hyde Leadership Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

June 30, 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect, if any, of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Management has not assessed the impact of FIN 48 on its financial position, results of operations and change in net assets but believes it should not be significant.

Fair Value Implementation: Effective July 1, 2008, the School adopted Statement of SFAS No. 157, which provides a framework for measuring fair value under generally accepted accounting principles, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning July 1, 2009. SFAS No. 157 applies to all financial instruments that are being measured and reported on a fair value basis. Implementation of SFAS No. 157 had no effect on assets, net assets or change in net assets as of June 30, 2009 or for the year then ended. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the School's statements of financial position, activities, or cash flows.

As defined in SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the School uses various methods including market, income and cost approaches. Based on these approaches, the School often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The School utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the School is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended June 30, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Hyde Leadership Charter School

Notes to Financial Statements

Note 1. Principal Business Activity and Summary of Significant Accounting Policies (Continued)

Evaluation of Subsequent Events: The School evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was October 29, 2009 for these financial statements.

Note 2. Agreement for School Facility

The School has entered into a Facility Shared Use Agreement (the "Agreement") with the NYCDOE for dedicated and shared space at M.S. 424, a New York City public school located at 730 Bryant Avenue, Bronx, New York. The Agreement commenced on July 1, 2006 at a cost of \$1 per year and expires in June 2011. The School will be responsible for any overtime-related costs for services provided beyond the regular opening hours.

Note 3. Related Party Transactions

The Hyde Foundation, a not-for-profit organization dedicated to helping start and run charter schools, provides management, fund-raising, and other administrative support services to the School. Pursuant to the terms of the Support and Affiliation Agreement by and between the Hyde Foundation and the School, dated November 21, 2005 and expiring on November 21, 2010, the School shall pay the Hyde Foundation a service fee equivalent to 3% of the School's pupil funding from the NYCDOE. Upon expiring on November 21, 2010, there are automatic successive two-year renewal terms unless terminated by the School and/or the Hyde Foundation by a written six-month notice. During the fiscal years ended June 30, 2009 and 2008, the School recognized \$165,755 and \$109,938, respectively, in management fees to the Hyde Foundation, of which \$69,857 and \$107,961 are still outstanding at June 30, 2009 and 2008, respectively.

During the fiscal year ended June 30, 2009, the School and the Hyde Foundation entered into an additional agreement where two employees of the School would provide services to the Hyde Foundation during the year and the Hyde Foundation would reimburse the School for the time and effort spent on their behalf by these two employees. The amount reimbursed to the School during the year ended June 30, 2009 was approximately \$27,000.

Note 4. Property and Equipment, Net

Property and equipment, net, at cost, as of June 30, 2009 and 2008 consists of:

	<u>2009</u>	<u>2008</u>	<u>Estimated Useful Life</u>
Furniture and fixtures	\$ 14,576	\$ 2,000	5 years
Computer software	65,945	43,209	5 years
Leasehold improvements	32,314	-	10 years
	<u>112,835</u>	45,209	
Less accumulated depreciation	<u>21,884</u>	<u>2,996</u>	
	<u>\$ 90,951</u>	<u>\$ 42,213</u>	

Hyde Leadership Charter School

Notes to Financial Statements

Note 4. Property and Equipment, Net (Continued)

The School has entered into two agreements with contractors to perform interior renovations to the space that the School occupies to provide a new science laboratory for the students. The total fees committed to under these agreements amounted to approximately \$73,000, of which \$5,000 has been paid as of year-end and included as leasehold improvements.

Note 5. Bank Credit Facility

The School had entered into an agreement with a bank that expired on February 28, 2009, whereby it was permitted to borrow up to a maximum of \$500,000 under a line of credit facility for working capital purposes. Interest was payable on any outstanding balance at the bank's prime rate plus 0.5%. There was no outstanding balance on the line of credit at June 30, 2008.

Note 6. Employee Benefit Plan

The School maintains a deferred compensation plan qualified under section 403(b) of the Code. The School matches up to 5% of each employee's annual compensation not to exceed the employee's annual salary deferral amount. The School may also elect to make additional contributions to the plan on a discretionary basis. The School made pension contributions totaling \$139,892 and \$100,267 for the years ended June 30, 2009 and 2008, respectively.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Roberta Flack School of Music	\$ -	\$ 15,259
Educational Pioneer Internship	-	2,333
Shelving for library	-	9,000
Students' and parents' retreats	-	19,365
After-school and Saturday programs	-	15,000
Total temporarily restricted net assets	\$ -	\$ 60,957

Note 8. Commitments and 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 such amounts have been provided for in the accompanying financial statements for such potential claims.

Hyde Leadership Charter School

Notes to Financial Statements

Note 9. Donated Goods and Services

The School received donated goods and/or services for the years ended June 30, 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Legal services	\$ 3,275	\$ 12,493
Brochure design	-	25,000
	<u>3,275</u>	<u>37,493</u>
Total donated goods and services	<u>\$ 3,275</u>	<u>\$ 37,493</u>

Note 10. Fair Value of Financial Instruments

Investments and financial instruments stated at fair value as of June 30, 2009 are as follows:

Description	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,084,664	\$ -	\$ 1,084,664	\$ -
Total	<u>\$ 1,084,664</u>	<u>\$ -</u>	<u>\$ 1,084,664</u>	<u>\$ -</u>

The fair value of certificates of deposit is estimated using prevailing interest rates.