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MEMBER: AICPA, NYSSCPA

October 2, 2008

To the Board of Trustees of
Ark Community Charter School

In planning and performing our audit of the financial statements of Ark Community Charter School for the year ended June 30, 2008, we considered the School's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 2, 2008, on the financial statements of Ark Community Charter School.

We will review the status of these comments during our next audit engagement. We have already discussed these comments with School personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the School and should not be used by anyone other than these specified parties.

Sincerely,

Wojeski & Co. CPAs, P.C.

STATUS OF PRIOR YEAR COMMENTS

Uniform Sales

During our prior year audit, we noted that the School had begun to sell uniforms for the students and staff. We also noted that there were no internal controls in place as far as cash control and inventory over these sales. We recommended keeping track of inventory of these items so that it could be compared to revenue.

During our current year audit we noted that the School is maintaining an inventory, and has implemented the use of pre-numbered receipts. However, there are still not adequate controls in place over the uniform cash sales. We continue to recommend that the School implement some controls over this process, including the following:

- *A petty cash fund should be established and maintained to provide change for cash uniform sales.*
- *Periodically all deposits in excess of the cash fund should be reconciled against sales per the receipt book and inventory records.*
- *Bank deposits should be reconciled against the cash reconciliation described above and any differences should be investigated.*
- *All instances where a uniform is provided to a child free of charge should be recorded as a sale in the receipt book and be approved by the Principal and/or the Assistant Director.*

Line of Credit

During our prior year audit we noted that the line of credit agreement with the Bank of America expired in February 2005. Line of credit agreements are important because they offer the School the flexibility to deal with any unexpected interruption in cash flow from operations and/or any unexpected expenditures. We recommended that the School re-establish a line of credit with the Bank of America or another financial institution.

During our current year audit we noted that the School re-established the line of credit with their financial institution.

Collateralization of Uninsured Cash Balances

We noted during our prior year audit that the School did not have a collateral agreement with the HSBC bank. Schools, including charter schools, are required to have funds held in financial institutions in excess of FDIC insurance collateralized. We recommended

ARK COMMUNITY CHARTER SCHOOL

Financial Statements

June 30, 2008 and 2007



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Ark Community Charter School

We have audited the accompanying statements of financial position of Ark Community Charter School as of June 30, 2008 and 2007 and the related statements of activities and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2008. These financial statements are the responsibility of Ark Community Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ark Community Charter School as of June 30, 2008 and 2007 and its changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2008 on our consideration of Ark Community Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on



ARK COMMUNITY CHARTER SCHOOL

Statements of Activities

	For the Year Ended June 30	
	2008	2007
REVENUES AND SUPPORT		
Public school district subsidy:		
Revenue - resident student enrollment	\$ 1,996,973	\$ 1,895,827
Federal grants	277,545	326,544
State grants	298,360	50,000
Contributions	12,005	7,180
Interest and dividends	11,184	11,593
Other income	3,423	7,278
TOTAL REVENUES AND SUPPORT	<u>2,599,490</u>	<u>2,298,422</u>
EXPENSES		
Program Services:		
Regular education	1,313,083	1,285,043
Other program	444,739	430,450
Support Services:		
Management and general	648,433	530,637
TOTAL EXPENSES	<u>2,406,255</u>	<u>2,246,130</u>
CHANGE IN NET ASSETS	193,235	52,292
Net assets at beginning of year	<u>1,989,240</u>	<u>1,936,948</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,182,475</u></u>	<u><u>\$ 1,989,240</u></u>

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Statements of Cash Flows

	For the Year Ended June 30	
	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ 193,235	\$ 52,292
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	158,923	159,839
Changes in operating assets and liabilities:		
Grants receivable	95,371	(92,198)
Pledge receivable	-	10,000
Prepaid expenses	5,832	1,399
Uniform inventory	(17,007)	-
Restricted cash - contingency reserve	(1,811)	(75,290)
Deferred revenue	6,900	-
Accounts payable	31,643	(476)
Accrued salaries and related items	54,774	42,456
	<u>527,860</u>	<u>98,022</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	527,860	98,022
INVESTING ACTIVITIES		
Additions to property and equipment	<u>(379,053)</u>	<u>(50,260)</u>
	<u>(379,053)</u>	<u>(50,260)</u>
NET CASH USED IN INVESTING ACTIVITIES	(379,053)	(50,260)
FINANCING ACTIVITIES		
Payments on capital lease obligation	<u>(3,782)</u>	<u>(1,937)</u>
	<u>(3,782)</u>	<u>(1,937)</u>
NET CASH USED IN FINANCING ACTIVITIES	(3,782)	(1,937)

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2008 and 2007

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Ark Community Charter School (the School) is a nonprofit entity incorporated in the State of New York. The School was established in 2001 and provides elementary education designed for children at-risk of academic failure. The School's purpose is to create a community that fosters the growth of their members in an environment that is both supportive and challenging. A summary of significant accounting policies for the School follows:

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting whereby all assets and liabilities are recorded during the period in which they were incurred.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits at banks and money market funds.

Grants and Pledges Receivable

The School considers all grants and pledges receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Uniform Inventory

Uniform inventory is valued at cost on a first-in, first-out (FIFO) basis.

Property and Equipment

Acquisitions of property and equipment and expenditures which materially change the capacities or extend useful lives, with a cost of more than \$1,000, are capitalized and recorded at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred. Assets acquired by gift and bequests are recorded at fair market value established at the date of acquisition. The carrying amounts of assets and related accumulated depreciation are removed from the accounts when such assets are disposed of and the related gain or loss is included in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Revenues and Support

All revenues and support are considered to be available for unrestricted use unless specifically restricted by the donor or grantor.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE C--DONATED MATERIALS AND SERVICES

Contributions include the fair market value of donated equipment and professional services, which totaled approximately \$4,800 for each of the years ended June 30, 2008 and 2007. The corresponding fair market value expense for donated professional services is also included in the financial statements.

NOTE D--PENSION PLANS

Employees of the School are eligible to participate in the New York State Teachers' Retirement System (NYSTRS) or New York State Employees Retirement System (NYSERS). The NYSTRS is a defined benefit plan covering teachers in New York State, with pensions calculated based primarily on the member's years of service and final average salary. The NYSERS is a defined contribution plan. Contributions for the years ended June 30, 2008 and 2007 were based on 8.73% and 8.6%, respectively, of participant salaries. Benefits and other provisions of the NYSERS vary depending on the date of membership as outlined in the plan document. Under both plans the benefits provided to members of the plan are established by New York State Law and may be amended only by the State Legislature. Pension expense was approximately \$100,300 and \$63,000 for the years ended June 30, 2008 and 2007, respectively.

The School has also established a defined contribution retirement plan (Section 403(b)) available to all employees. The plan is funded by employee contributions only.

NOTE E--LINE OF CREDIT

Subsequent to June 30, 2008, the School entered into a \$100,000 line of credit agreement with a bank. Interest is at the bank's index rate plus 2% (7% at June 30, 2008). The line of credit is unsecured, however, in the event of default the bank has the right of setoff and can apply funds deposited at the bank against the outstanding balance.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE H--SCHEDULE OF GRANTS RECEIVED

The School received the following grants during the years ended June 30:

	<u>2008</u>	<u>2007</u>
State Education Department (includes federal grants)	\$ 547,745	\$ 348,582
Universal Service Administrative Company (E-Rate reimbursement funded through the Federal Communications Commission (FCC))	<u>28,160</u>	<u>27,962</u>
	<u>\$ 575,905</u>	<u>\$ 376,544</u>

NOTE I--RELATED PARTY TRANSACTIONS

During the year ended June 30, 2008, the School entered into a contract with The Ark, Inc. The School's principal and director is a member of The Ark, Inc.'s board of directors. Under the agreement The Ark, Inc. provides summer school services. The total cost of these services to the School was approximately \$10,000 and \$8,400 for the years ended June 30, 2008 and 2007, respectively.

The School also allows The Ark, Inc. to use the School facilities for its programs at no cost.

NOTE J--CONTINGENCY

The School's charter is due to expire on June 30, 2008. As of the date of this report, the School has received notification that its' charter will be extended for one year. If the charter is not renewed the School would have to close. School management reported in its New York State Charter School Institute accountability report, dated August 1, 2008, that it had met nine out of the ten conditions established by the New York State Charter School Institute. Management believes that the charter will be extended prior to June 30, 2009.

COMPLIANCE REPORT

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 Ark Community Charter 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*.

We noted certain matters that we reported to management of Ark Community Charter School in a separate letter dated October 2, 2008.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

Wojcik & Co. CPAs, P.C.

East Greenbush, New York
October 2, 2008

**Ark Community Charter School Corrective Action Plan
Management Letter Comments
for the Year Ended June 30, 2007**

Uniform Sales

During the audit period ended June 30, 2008, the auditors noted that the school still had inadequate controls over uniform cash sales. During the current year, the School has implemented the following:

- The School has established a petty cash fund.
- All deposits in excess of the cash fund will be reconciled against uniform receipts and inventory records on a quarterly basis.
- Bank deposits will be reconciled against the petty cash reconciliation also on a quarterly basis.
- All uniforms provided free of charge will be recorded and approved.

Line of Credit

During the audit period ended June 30, 2008, the auditors noted that the school had reestablished a line of credit with Bank of America.

Collateralization of Uninsured Cash Balances

The auditors noted that all cash balances were collateralized during the audit period ended June 30, 2008.

Inventory

The auditors noted that the School has implemented an inventory system for uniforms during the audit period ended June 30, 2008.



October 2, 2008

To the Board of Trustees
Ark Community Charter School

Dear Members:

We have audited the financial statements of Ark Community Charter School for the year ended June 30, 2008, and have issued our report thereon dated October 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 18, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Ark Community Charter School (the School). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Finance Committee, Board of Directors and management of Ark Community Charter School, and is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,

Wojeski & Co. CPAs, P.C.

Wojeski & Company CPAs, P.C.