

ARK COMMUNITY CHARTER SCHOOL

Financial Statements

June 30, 2010 and 2009

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INDEPENDENT AUDITORS' 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, 2010 and 2009 and the related statements of cash flows for the years then ended, and the statements of activities and functional expenses for the year ended June 30, 2010. 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. The prior year summarized comparative information has been derived from Ark Community Charter School's June 30, 2009 financial statements and, in our report dated October 7, 2009 we expressed an unqualified opinion on those financial statements.

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, 2010 and 2009 and the 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 19, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Wojinski & Co. CPAs, P.C.

East Greenbush, New York
October 19, 2010

ARK COMMUNITY CHARTER SCHOOL

Statements of Financial Position

	June 30	
	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,021,390	\$ 660,640
Grants and contract receivable	170,242	35,880
Accounts receivable	26,791	40,713
Other receivables	1,363	1,185
Prepaid expenses	11,902	30,863
Uniform inventory	14,747	7,874
	<u>1,246,435</u>	<u>777,155</u>
TOTAL CURRENT ASSETS	1,246,435	777,155
PROPERTY AND EQUIPMENT		
Land	37,300	37,300
Building	201,125	201,125
Building improvements	2,202,014	2,141,181
Furniture, fixtures and equipment	614,914	595,848
Vehicles	10,278	10,278
Software	29,505	29,505
	<u>3,095,136</u>	<u>3,015,237</u>
Less accumulated depreciation	1,060,985	909,274
	<u>2,034,151</u>	<u>2,105,963</u>
OTHER ASSETS		
Restricted cash - contingency reserve	-	77,462
Financing costs, net of amortization	-	15,149
	<u>-</u>	<u>92,611</u>
	<u>\$ 3,280,586</u>	<u>\$ 2,975,729</u>

See accompanying notes to financial statements.

	June 30	
	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of mortgage note payable	\$ -	\$ 6,085
Accounts payable and accrued expenses	67,320	48,220
Accrued salaries and related items	346,475	323,181
Deferred revenue	15,000	1,183
	<u>428,795</u>	<u>378,669</u>
LONG-TERM LIABILITIES		
Mortgage note payable, less current maturities	<u>-</u>	<u>187,674</u>
	428,795	566,343
NET ASSETS		
Unrestricted	2,838,681	2,331,924
Unrestricted - board designated	-	77,462
Temporarily restricted	13,110	-
	<u>2,851,791</u>	<u>2,409,386</u>
	<u>\$ 3,280,586</u>	<u>\$ 2,975,729</u>

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Statement of Activities

For the Year Ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

	Unrestricted	Temporarily Restricted	2010 Totals	2009 Totals
REVENUES AND SUPPORT				
Public school district:				
Resident student enrollment	\$ 2,551,506	\$ -	\$ 2,551,506	\$ 2,337,773
Grants and contracts:				
State and local grants	214,180	-	214,180	-
Federal grants - Title grants	179,595	-	179,595	140,075
Federal grants - other	24,770	-	24,770	68,765
Other	20,000	-	20,000	85,000
Food service/child nutrition program	136,475	-	136,475	125,479
TOTAL REVENUES AND SUPPORT	3,126,526	-	3,126,526	2,757,092
EXPENSES				
Program services:				
Regular education	1,634,291	-	1,634,291	1,618,118
Other program	590,953	-	590,953	475,321
	<u>2,225,244</u>	<u>-</u>	<u>2,225,244</u>	<u>2,093,439</u>
Support services:				
Management and general	489,012	-	489,012	461,345
TOTAL EXPENSES	2,714,256	-	2,714,256	2,554,784
SURPLUS FROM SCHOOL OPERATIONS	412,270	-	412,270	202,308
SUPPORT AND OTHER REVENUE				
Contributions				
Individuals	2,460	13,110	15,570	1,202
Corporations	10,853	-	10,853	11,780
Foundations	800	-	800	7,040
Interest and dividends	1,047	-	1,047	2,727
Other income	1,865	-	1,865	1,854
TOTAL SUPPORT AND OTHER REVENUE	17,025	13,110	30,135	24,603
CHANGE IN NET ASSETS	429,295	13,110	442,405	226,911
Net assets at beginning of year	2,409,386	-	2,409,386	2,182,475
NET ASSETS AT END OF YEAR	\$ 2,838,681	\$ 13,110	\$ 2,851,791	\$ 2,409,386

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Statement of Functional Expenses

For the Year Ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

	Program Services		Total	Support Services		2010 Total	2009 Total
	Regular Education	Other Program		Management and General			
FUNCTIONAL EXPENSES							
Personnel services costs							
Instructional personnel	\$ 1,022,460	\$ -	\$ 1,022,460	\$ -	\$ -	\$ 1,022,460	\$ 961,484
Non-instructional personnel	-	308,039	308,039	-	-	308,039	263,056
Administrative staff personnel	-	-	-	199,780	-	199,780	177,344
Total salaries and staff	1,022,460	308,039	1,330,499	199,780	-	1,530,279	1,401,884
Fringe benefits and payroll taxes	246,701	74,764	321,465	35,941	-	357,406	305,861
Depreciation and amortization	66,743	41,715	108,458	58,401	-	166,859	156,694
Other professional and consulting services	81,068	22,452	103,520	15,098	-	118,618	143,308
Retirement	60,737	16,821	77,558	16,296	-	93,854	100,938
Supplies and materials	32,007	24,888	56,895	14,493	-	71,388	64,583
Student services	44,946	12,448	57,394	-	-	57,394	62,984
Utilities	22,776	14,234	37,010	19,929	-	56,939	70,999
Food service	-	48,020	48,020	-	-	48,020	21,588
Accounting and auditing services	-	-	-	45,200	-	45,200	47,276
Insurance	13,517	8,448	21,965	11,828	-	33,793	29,918
Office expense	7,591	2,102	9,693	18,956	-	28,649	28,850
Repairs and maintenance	10,413	6,508	16,921	9,111	-	26,032	30,266
Staff development	15,064	4,172	19,236	2,122	-	21,358	32,661
Equipment and furnishings	5,566	3,479	9,045	4,870	-	13,915	3,400
Marketing and recruitment	-	-	-	13,002	-	13,002	10,033
Technology	4,581	2,863	7,444	4,009	-	11,453	8,458
Legal services	-	-	-	6,401	-	6,401	14,783
Building rent	-	-	-	-	-	-	8,418
Other	121	-	121	13,575	-	13,696	11,882
	\$ 1,634,291	\$ 590,953	\$ 2,225,244	\$ 489,012	\$ -	\$ 2,714,256	\$ 2,554,784

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Statements of Cash Flows

	For the Year Ended June 30	
	2010	2009
OPERATING ACTIVITIES		
Change in net assets	\$ 442,405	\$ 226,911
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	166,859	156,694
Changes in operating assets and liabilities:		
Grants and contract receivable	(134,362)	17,931
Accounts receivable	13,922	(17,880)
Other receivables	(178)	(496)
Prepaid expenses	18,961	(11,955)
Uniform inventory	(6,873)	9,133
Restricted cash - contingency reserve	77,462	(361)
Accounts payable and accrued expenses	19,100	(40,056)
Accrued salaries and related items	23,294	11,045
Deferred revenue	13,817	(5,717)
	<u>634,407</u>	<u>345,249</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	634,407	345,249
INVESTING ACTIVITIES		
Additions to property and equipment	<u>(79,899)</u>	<u>(139,297)</u>
	<u>(79,899)</u>	<u>(139,297)</u>
NET CASH USED IN INVESTING ACTIVITIES	(79,899)	(139,297)
FINANCING ACTIVITIES		
Payments on mortgage note payable	(193,758)	(1,241)
Payments on capital lease obligation	<u>-</u>	<u>(3,962)</u>
	<u>(193,758)</u>	<u>(5,203)</u>
NET CASH USED IN FINANCING ACTIVITIES	(193,758)	(5,203)

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Statements of Cash Flows—Continued

	For the Year Ended June 30	
	2010	2009
INCREASE IN CASH AND CASH EQUIVALENTS	\$ 360,750	\$ 200,749
Cash and cash equivalents at beginning of year	<u>660,640</u>	<u>459,891</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,021,390</u>	<u>\$ 660,640</u>

See accompanying notes to financial statements.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements

June 30, 2010 and 2009

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 Accounting

The Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative U.S. generally accepted accounting principles (GAAP) in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates (ASU).

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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Receivables

Accounts receivable and grants and contracts receivables represent amounts due as reimbursements under grant agreements or reimbursement for services provided by the School and are non-interest bearing. Receivables are recorded at their estimated collectable amounts. The School uses the allowance method to account for uncollectable receivables. Receivable balances are periodically reviewed for collectibility based on past history and current economic conditions. In the opinion of management, the receivable balances are fully collectible; accordingly, no allowance for doubtful accounts was necessary at June 30, 2010 and 2009.

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 are capitalized and recorded at cost, or in the case of donations or bequests, at fair market value at the date of acquisition. Routine maintenance, repairs and minor replacement costs are charged to expense as incurred. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the change in net assets. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Revenues and Support

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. However, if a restriction is fulfilled in the same time period in which the contribution is received, the School reports the support as unrestricted.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Functional Allocation of Expenses

Salaries and related employee expenses are allocated to program and support service functions based on actual or estimated time employees spend on each function. The remaining expenses are specifically allocated whenever practical, or are allocated based on salaries or space utilization.

Advertising Costs

The School expenses advertising costs as they are incurred. Advertising expense was approximately \$13,000 and \$10,000 for the years ended June 30, 2010 and 2009, respectively.

Tax Status

The Internal Revenue Service has determined that the School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The School's information return filings are subject to audit by various taxing authorities. The School is no longer subject to examinations by taxing authorities for the years ending before June 30, 2007, and currently, there are no examinations in process nor has the School been informed of any pending examination.

Comparative Totals, Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class, and expenses not by function. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Reclassifications

Certain amounts for the year ended June 30, 2009 have been reclassified to conform to the presentation for the year ended June 30, 2010. These reclassifications had no effect on the changes in net assets or net assets.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE A--ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES--Continued

Accounting Standards Issued Not Yet Effective

The Financial Accounting Standards Board (FASB) recently issued guidance on mergers and acquisitions of not-for-profit entities effective for the School's 2011 fiscal year. The guidance establishes principles and requirements for how to determine whether a combination is a merger or acquisition, applies the carryover method for a merger, applies the acquisition method for an acquisition, and determines what information to disclose to evaluate the nature and financial effects of the combination. The School does not expect that the adoption of this guidance will have a material impact on its financial statements.

NOTE B--RESTRICTED CASH

During the year ended June 30, 2009, restricted cash consisted of money market funds held in a separate bank account that the School's board of directors had designated as a contingency reserve. During the year ended June 30, 2010, the School's board eliminated the restrictions and closed the related bank account.

NOTE C--DONATED MATERIALS AND SERVICES

Contributions include the fair market value of donated equipment and professional services, which totaled approximately \$10,900 and \$4,800 for the years ended June 30, 2010 and 2009, respectively. The corresponding fair market value expense for donated professional services is also included in the financial statements.

NOTE D--MORTGAGE NOTE PAYABLE

During the year ended June 30, 2009, the School exercised the bargain purchase option for the building they were leasing. The School financed \$195,000 of the purchase price with a mortgage note payable to Capital District Community Loan Fund, Inc. The terms included a monthly installment payment of \$1,524, including interest at 7%, through February 2014. The note was secured by a first mortgage lien on the building. During the year ended June 30, 2010, the School paid off the loan with the proceeds from a New York State Stimulus Fund Grant.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE E--LINE OF CREDIT

The School has a \$100,000 line of credit with a bank that is unsecured. In the event of default the bank has the right of setoff and can apply funds deposited at the bank against the outstanding balance. The interest rate is the bank's index rate plus 2% (5.25% at June 30, 2010). The outstanding balance on the line of credit was \$0 at June 30, 2010 and 2009.

NOTE F--OPERATING LEASE

The School leases certain office equipment under various noncancelable operating leases. Future minimum lease payments under the operating leases are as follows:

Years Ending June 30:	
2011	\$ 7,788
2012	732
2013	732
2014	732
2015	366
	<u>\$ 10,350</u>

Rent expense was approximately \$7,400 and \$7,100 for the years ended June 30, 2010 and 2009, respectively.

NOTE G--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions to the Tara Fund, a fund established in memory of a former teacher at the School. The family of the former teacher approves expenditures from the fund. Proceeds from the fund will be used to build a new playground during the School year ending June 30, 2011.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE H--RELATED PARTY TRANSACTIONS

The School has an agreement with The Ark, Inc. to provide summer school services. The School's principal and director is a member of The Ark, Inc.'s board of directors. The total cost of these services to the School was approximately \$30,000 for each the years ended June 30, 2010 and 2009.

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

NOTE I--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. Contributions for the years ended June 30, 2010 and 2009 were based on 6.19% and 7.63%, respectively, of participant salaries. The NYSERS is a defined contribution plan. 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 \$94,000 and \$101,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE J--SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest for the periods ended June 30, 2010 and 2009 was \$10,363 and \$11,988, respectively.

During the year ended June 30, 2009, the School exercised the bargain purchase option for the building that they were leasing. The cost financed was \$249,329 which consisted of the net selling price of \$233,098 plus financing costs of \$16,231. The purchase of the building was financed by a \$195,000 mortgage note payable (see Note D) and a net cash payment of \$54,329. The difference between the outstanding balance of the capital lease obligation and the purchase price was recorded as a reduction in the cost basis of the building and land.

ARK COMMUNITY CHARTER SCHOOL

Notes to Financial Statements--Continued

NOTE K--CONCENTRATIONS

Although the School receives support from various sources, approximately 71% and 72% of the School's total support was received from the Troy Central School District for the years ended June 30, 2010 and 2009, respectively.

NOTE L--SUBSEQUENT EVENTS

In accordance with FASB ASC 855 (formerly Statement of Financial Accounting Standards No. 165, *Subsequent Events*), the School has evaluated for subsequent events between the statement of financial position date of June 30, 2010 and October 19, 2010, the date the financial statements were available to be issued.

Subsequent to the year ended June 30, 2010 the School began construction on a new playground. The total budgeted cost of the project was approximately \$131,000.

COMPLIANCE REPORT



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees
Ark Community Charter School:

We have audited the financial statements of Ark Community Charter School as of and for the year ended June 30, 2010 and have issued our report thereon dated October 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ark Community Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ark Community Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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*.

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.

Wojaski + Co. CPAs, P.C

East Greenbush, New York
October 19, 2010