

Absolute Return for Kids (ARK)

Trustees' Annual Report and Accounts

30 September 2006

Trustees' report for the year ended 30th September 2006

Company Number: 4589451

Charity Number: 1095322

The trustees are pleased to present their report together with the audited financial statements of the charity for the year ended 30 September 2006.

Reference and administrative details

Directors

The directors of the charitable company are its trustees for the purpose of charity law and throughout this report are collectively referred to as the trustees.

The following individuals served as trustees during the year:

Arpad Busson (Chairman)
Paul Dunning
Stanley Fink
Kevin Gundle
Paul Marshall
Jennifer Moses
Blaine Tomlinson
Ian Wace

All trustees served for the full year and no trustees have resigned or been appointed since the year end. None had any beneficial interest in the charity and remuneration of directors is neither paid by the charity nor permitted under its Articles of Association.

Managing Director

Paul Bernstein

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF
T: +44 20 7951 2000

Bankers

HSBC Private Bank (UK) Limited
78 St James's Street
London SW1A 1JB
T: +44 20 860 5000

Solicitors

Boodle Hatfield
89 New Bond Street
London W1S 1DA
T: +44 20 7629 7411

Registered Office

27 Queen Anne's Gate
London SW1H 9BU
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Trustees' report for the year ended 30th September 2006

Structure, Governance and Management

Governing Document

Absolute Return for Kids (ARK) is a company limited by guarantee governed by its Memorandum and Articles of Association dated 12 November 2002, and is registered as a charity with the Charity Commission.

Organisation

The board of trustees, which can have up to 10 members, administers the charity. The board meets at least six times a year. There are also 4 sub-committees; one covering each of the charity's 3 main programme areas and the fourth dealing with finance and audit. The sub-committees each report back to the board and make recommendations on policy and practice in their respective areas of jurisdiction.

A Managing Director is appointed by the trustees to oversee the day to day operations of the charity. To facilitate effective operations, the Managing Director has delegated authority for operational matters including finance and employment.

Related Parties

The charity has established 3 subsidiary companies to implement its key programmes.

ARK Academies is responsible for administering ARK's work in inner city schools in the UK, and changed its name during the year from ARK Education Limited. For the period to 31 August 2006 ARK Academies is included in the consolidated Statement of Financial Activities. With effect from 1 September 2006 ARK Academies ceased to be a part of the ARK group consolidation as changes to the Memorandum and Articles of Association gave DfES ultimate control of the company (see note 22).

ARK Schools was incorporated in September 2006 and deals with ARK's work in Education beyond the Academies programme.

ARK South Africa Limited runs the charity's programmes in South Africa.

ARK Bulgaria runs the charity's programmes in Bulgaria.

The charity also has a trading subsidiary Absolute Return for Kids (ARK) Trading Limited which was established in 2002 to operate the commercial activities of the group, but did not trade during the year under review.

The charity is also affiliated to Friends of ARK a US philanthropic organisation which shares ARK's passion for transformational change in the lives of disadvantaged children. FoA supports the work of the charity through grants.

Note 17 to the financial statements includes a summary of transactions with each of these organisations.

Risk Management

The trustees have assumed responsibility for identifying the types of risk faced by ARK in pursuing its charitable objectives. They have presided over the establishment of formal procedures in every aspect of the business designed to mitigate these risks, and have ensured that employees are both fully aware of these procedures and of the implications of failing to implement them. They are satisfied that these controls, especially the financial ones, comply in all material respects with guidelines issued by the Charity Commission.

Reserves policy

Restricted funds

ARK achieves its charitable objectives through a combination of grants to partner organisations and direct implementation of projects through its own charitable subsidiaries.

Trustees' report for the year ended 30th September 2006

Where the projects are to be implemented by group companies the funds committed to them are shown as restricted funds in the balance sheet. The funding period for a typical project is 3 to 5 years. ARK considers these projects to be social investments and commits to funding only when it has sufficient resources to fund the investment to the point where it can deliver a clearly defined set of objectives.

For this reason at any point in time ARK expects to be holding an amount equivalent to several years expenditure in restricted funds.

The value of restricted funds at 30 September 2006 was £15,624,836 (2005 - £7,068,843) which is equivalent to 23 months expenditure on charitable activities at 2006 levels. The Trustees consider this to be in line with the organisation's policy.

Unrestricted funds – core costs

As discussed in the Financial Review below, the trustees ensure that the central administrative costs of the charity are met through funds raised specifically for that purpose, and will continue to do so for the foreseeable future. For this reason, the trustees feel that it is not necessary for the charity to establish a reserve to cover these costs, although at any point in time there may be a balance held that represents an excess of funds raised to cover core costs over expenditure on core costs to date.

In the balance sheet this is shown as Unrestricted funds – core costs. The balance held on this fund was £228,269 at 30 September 2006 (2005 - £31,828)

Unrestricted funds – general programme fund

The majority of funds raised by ARK must be used to fund charitable projects (ie they cannot be used to cover the organisation's core costs) but are not committed to a specific project at the point of receipt. This income is credited to ARK's General programme fund and stays there until such time as it is committed to a specific project.

The value of funds raised for charitable activity but not yet committed to a specific project is shown in the balance sheet as Unrestricted funds – general programme funds.

The value of general programme funds at 30 September 2006 was £5,483,739 having fallen from £5,962,983 at 30 September 2005. The Trustees consider this to be in line with the organisation's policy.

Objectives and principal activities

ARK's mission is to transform the lives of children. ARK maximises its impact by funding and managing innovative programmes focusing on three core themes where it has developed a high degree of expertise:

- Combating HIV/AIDS
- Delivering Education for disadvantaged children, and
- Deinstitutionalisation – closing orphanages and boosting availability of family-based care

To date the charity's HIV/AIDS work has focused exclusively on South Africa where it provides medical staff and facilities to assist the South African Government's programme for the distribution of Anti Retroviral drugs ("ARVs"). The charity also launched a series of new initiatives known collectively as Children Affected by AIDS ("CABA") and a Grant Access Strategy ("GAS") programme. The CABA project is clustered around the sites where ARK manages medical facilities and aims to provide a holistic approach to providing a better life for children affected by HIV/AIDS. The charity implements this work through ARK South Africa Limited. Working in partnership with the government, GAS is designed to assist vulnerable children and their families to overcome the barriers preventing them from accessing government grants.

A similar cluster approach is being gradually introduced for the charity's UK work. In 2004 ARK Academies was established with the aim of providing transformational change to a number of failing inner city schools through the UK Government's Academies programme. Burlington Danes Academy, Hammersmith, the first ARK Academy, opened in September 2006 and it is expected that several others

Trustees' report for the year ended 30th September 2006

will follow by 2009. Beyond the Academies, ARK's UK programme also provides funding for projects run by other charities working in thematic areas such as school exclusions and prevention of teenage pregnancies. ARK rigorously researches the programmes and organisations seeking its assistance, and provides support only when it has a high degree of confidence that funds will be efficiently and effectively deployed. Over time the research also aims to ensure that the funded third party UK programmes support the work of ARK's Academies and are geographically focused on the areas surrounding the schools.

The focus of the Deinstitutionalisation programme has also developed significantly during the year. While ARK continues to work closely with key partner Hope and Homes for Children ("HHC") and to provide funding for its work, the charity has also begun direct implementation in Bulgaria. Here ARK aims to help create alternative services to allow closure of large-scale orphanages. The programme's priority is to reintegrate children with their biological parents or their extended family if possible, to place them in foster care if not, and if neither is an option using small group homes as a last resort. To ensure sustainability and considered exit, ARK has a small core team that provides targeted capacity building and infrastructure support to the local child protection department.

Achievements, performance and future plans

HIV/AIDS

- ARK's ARV treatment programme has expanded from two to four provinces in South Africa, supporting 40 treatment sites. ARK plans to enrol over 22,000 HIV+ mothers and caregivers on ARVs by 2009, preventing over 40,000 children from being orphaned.
- ARK's CABA programme has built 2 community centres, and supports children across 6 districts covering 25 schools. The GAS Programme has now been launched helping families access a child support grant of £17 per month. Over 21,000 children will access social grants by 2010, leveraging an estimated £17m from the South African government.

Education

- The first ARK Academy opened in September 2006. Burlington Danes Academy in Hammersmith and Fulham is now educating over 800 11 – 16 year old students, with a sixth form due to open when the buildings are completed in September 2009.
- ARK is piloting its Future Leaders programme with 20 participants - an innovative project partnering with National College of School Leadership and Specialist Schools and Academies Trust, to train a new group of young leaders keen and ready to lead transformation in urban schools.
- ARK's social exclusion programmes in the UK support over 1,000 children and families through programmes to prevent teenage pregnancy, exclusion from education and family breakdown.

Deinstitutionalisation

- ARK is leading the first-ever orphanage closure project in Bulgaria, closing 3 institutions, housing some 350 children in family-based care, by 2008. The first significant scale foster care programme in the country will also be created.
- In partnership with HHC, ARK enabled 1,650 children to grow up in families by closing 7 orphanages in Romania. With support from ARK, HHC is expanding its activities to support a further 3,000 children across five countries of Eastern Europe – Bosnia, Kosovo, Belarus, Moldova and Ukraine.

Financial review

The year to 30 September 2006 was one of rapid expansion for ARK, with income doubling during the period.

The charity continues to raise the majority of its funds through its annual Gala Dinner. In 2006 this was held at Marlborough House London in conjunction with the Commonwealth Secretariat and Hope and Homes for Children. Thanks to the generosity of ARK's supporters £18m was raised on the night which is believed to be the first time this amount has been reached by a single event of this nature in the UK.

Trustees' report for the year ended 30th September 2006

2006 also saw a significant growth of income from charitable activities received through the charity's subsidiary company ARK Academies. This relates to fees received from the Department for Education and Skills (DfES) for feasibility work carried out in establishing the Academies that ARK will run. Income in this area is expected to increase in the years ahead with a gradual shift from feasibility fees to management charges as ARK's education arm establishes a sustainable income stream to cover its own core costs.

Expenditure by the parent charity during the year trebled to £21.5m. This was slightly in excess of the £20.4m received as income during the year, resulting in net outgoing resources of £1.1m.

ARK's HIV/AIDS programme continues to be its largest in terms of expenditure with new funds invested during the year topping £10m for the first time. (see note 7).

But there were major increases in charitable expenditure across all of ARK's programmes reflecting the coming to maturity of the change of modus operandi from grant giving to direct implementation. The largest increase in percentage terms was in the Deinstitutionalisation programme where the launch of ARK's new project in Bulgaria together with a major new grant to HHC saw expenditure rise to £4m (2005 - £225k).

Expenditure on the UK programme also increased significantly during the year to £3.7m. The focus of ARK's work in the UK shifted to the Academy programme in the run up to the charity opening its first school in September 2006. Moreover as ARK expects to open 2 Academies a year for the next 3 years this programme is expected to represent an increasing percentage of the charity's expenditure for the immediate future.

Central administrative costs

The trustees continue to ensure that the central administrative costs of the charity (referred to as core costs throughout these accounts) are met through funds raised specifically for that purpose.

The income and expenditure relating to this in the year were

	£
Trustees' Contributions	358,997
Patrons' Contributions	494,184
Return on Investments	170,299
ARK Masters Fee Rebates	27,963
Total income raised for core cost	1,051,443
LESS Expenditure on core costs	(855,002)
Surplus on core costs for the year	196,441
Balance 1 October 2005	31,828
Balance 30 September 2006	228,269

The Trustees understand that charity's growth will require a gradual expansion of core cost income in the years ahead. They are confident that ARK's patrons programme can be expanded through the recruitment of new patrons from within the alternative investment industry. Following the launch of the ARK Masters Fund in October 2005, they anticipate that income from investment managers rebating fees charged to the fund will increase significantly in future years. They have collectively agreed to cover any shortfall on a year to year basis.

This undertaking is central to ARK's operating philosophy as it gives other donors the assurance that every penny of every donation goes directly to projects.

Trustees' report for the year ended 30th September 2006

Trustees' responsibilities in relation to the financial statements

The trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the trustees to prepare financial statements that give a true and fair view of the state of affairs of the charity at the end of the financial year and of its surplus or deficit for the financial year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to the Auditors

The Trustees are not aware of any relevant audit information of which the Charity's auditors are unaware. The Trustees also confirm that they have taken all the steps required of Trustees to make themselves aware of any relevant audit information, and establish that the Charity's auditors are aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the forthcoming Annual General Meeting.

This report was approved by the trustees on 22 May 2007.

Arpad Busson
Chairman
Absolute Return for Kids (ARK)

Independent auditors' report

to the members of Absolute Return for Kids (ARK)

We have audited the charitable company's financial statements for the year ended 30 September 2006 which comprise the Statement of Financial Activities (SOFA), the Balance Sheet and the related notes 1 to 7. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditors

As described in the Statement of Trustees' Responsibilities the charitable company's trustees' are responsible for the preparation of the Annual Report and financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Trustees' report is consistent with the financial statements.

We also report to you if, in our opinion, the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charitable group is not disclosed.

We read the trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charitable company's affairs as at 30 September 2006 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the trustees' report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
London

Consolidated statement of financial activities

for the year ended 30 September 2006

	Notes	Unrestricted £	Restricted £	Year ended 30 September Total £	Year ended 30 September 2005 £
Incoming Resources					
Incoming Resources from generated funds					
Voluntary income					
Grants and donations	2	1,225,737	584,888	1,810,625	1,496,746
Activities for generating funds:					
Fundraising events	3	10,831,337	7,465,033	18,296,370	8,630,946
Incoming Resources from charitable activities					
Grants and contracts		-	864,297	864,297	117,466
Investment income	4	446,363	5,084	451,447	394,753
Ongoing operations					
		12,503,437	8,049,922	20,554,599	10,522,445
Discontinued operations					
		-	868,140	868,140	117,466
Total Incoming Resources					
		12,503,437	8,919,302	21,422,739	10,639,911
Resources Expended					
Cost of generating funds:					
Charitable Activities	7	2,465,883	-	2,465,883	1,215,683
Grants & project operating costs	7	-	8,219,490	8,219,490	2,661,196
Governance costs	6	342,001	-	342,001	290,389
Total Resources expended					
		2,807,884	8,219,490	11,027,374	4,167,268
Ongoing operations					
		9,695,553	999,918	10,700,554	6,415,001
Discontinued operations					
		-	(305,190)	(305,190)	57,642
Net incoming/(outgoing) resources before other recognised gains and losses					
		9,695,553	699,812	10,395,365	6,472,643
Unrealised gains on Investment assets					
	8	13,597	-	13,597	-
Realised gains on foreign Currency swap					
	8	156,702	-	156,702	-
Transfer of restricted reserve to former Group entity					
	22	-	(2,292,473)	(2,292,473)	-
Net incoming/(outgoing) resources before transfers					
		9,865,852	(1,592,661)	8,273,191	6,472,643
Gross transfers between funds					
		(10,148,654)	10,148,654	-	-
Net movement in funds					
	9	(282,802)	8,555,993	8,273,191	6,472,643
Funds at 1 October 2005					
		5,994,811	7,068,843	13,063,654	6,591,011
Funds at 30 September 2006					
		5,712,009	15,624,836	21,336,845	13,063,654

Charity statement of financial activities

for the year ended 30 September 2006

	<i>Notes</i>	<i>Unrestricted £</i>	<i>Restricted £</i>	<i>Year ended 30 September Total £</i>	<i>Year ended 30 September 2005 £</i>
Incoming Resources					
Incoming Resources from generated funds					
Voluntary Income					
Grants and donations	2	1,225,737	391,565	1,617,302	1,422,704
Activities for generating funds:					
Fundraising events	3	10,831,337	7,465,033	18,296,370	8,630,946
Investment Income	4	446,363	-	446,363	394,288
Total Incoming Resources		<u>12,503,437</u>	<u>7,856,598</u>	<u>20,360,035</u>	<u>10,447,938</u>
Resources Expended					
Cost of generating funds:					
Charitable Activities					
Grants and project operating costs	7	9,789,750	8,871,475	18,661,225	5,870,180
Governance costs	6	342,001	-	342,001	290,389
Total resources expended		<u>12,597,634</u>	<u>8,871,475</u>	<u>21,469,109</u>	<u>7,376,252</u>
Net incoming/(outgoing) resources before other recognised gains and losses					
		<u>(94,197)</u>	<u>(1,014,877)</u>	<u>(1,109,074)</u>	<u>3,071,686</u>
Unrealised gains on investment assets					
	8	13,597	-	13,597	-
Realised gains on foreign Currency swap					
	8	156,702	-	156,702	-
Net movement in funds	9	<u>76,102</u>	<u>(1,014,877)</u>	<u>(938,775)</u>	<u>3,071,686</u>
Funds at 1 October 2005		5,635,907	1,863,771	7,499,678	4,427,992
Funds at 30 September 2006		<u>5,712,009</u>	<u>848,894</u>	<u>6,560,903</u>	<u>7,499,678</u>

Consolidated balance sheet

at 30 September 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Fixed assets			
Tangible fixed assets	10	64,516	52,322
		<u>64,516</u>	<u>52,322</u>
Current assets			
Debtors	12	7,417,217	3,612,664
Cash at bank and in hand	8	14,036,290	7,713,850
Investment	8	4,616,608	2,760,906
		<u>26,070,115</u>	<u>14,087,420</u>
Creditors: amounts falling due within one year	13	(4,480,286)	(1,076,088)
Net current assets		<u>21,589,829</u>	<u>13,011,332</u>
Total assets less current liabilities		21,654,345	13,063,654
Creditors: amounts falling due after one year	14	(317,500)	-
Net assets		<u>21,336,845</u>	<u>13,063,654</u>
Funds			
Unrestricted funds:			
General fund		5,483,740	5,962,983
Core costs		228,269	31,828
Restricted funds		<u>15,624,836</u>	<u>7,068,843</u>
Total funds	15	<u>21,336,845</u>	<u>13,063,654</u>

Approved by the Board of Directors on 22 May 2007 and signed on its behalf by:

Arpad Busson
Chairman
Absolute Return for Kids (ARK)

Charity balance sheet

at 30 September 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Fixed assets			
Tangible fixed assets	10	8,231	14,483
Investments in subsidiaries	11	1	1
		<u>8,232</u>	<u>14,484</u>
Current assets			
Debtors	12	7,386,996	3,608,511
Cash at bank and in hand	8	13,445,452	7,301,825
Investment	8	4,616,608	2,760,906
		<u>25,449,056</u>	<u>13,671,242</u>
Creditors: amounts falling due within one year	13	<u>(10,159,364)</u>	<u>(3,305,975)</u>
Net current assets		<u>15,289,692</u>	<u>10,365,267</u>
Total assets less current liabilities		15,297,924	10,379,751
Creditors: amounts falling due after one year	14	<u>(8,737,021)</u>	<u>(2,880,073)</u>
Net assets		<u>6,560,903</u>	<u>7,499,678</u>
Funds			
Unrestricted funds:			
General fund		5,483,739	5,604,079
Core costs		228,269	31,828
Restricted funds		848,895	1,863,771
Total funds	15	<u>6,560,903</u>	<u>7,499,678</u>

Approved by the Board of Directors on 22 May 2007 and signed on its behalf by:

Arpad Busson
Chairman
Absolute Return for Kids (ARK)

Consolidated statement of cash flows

for the year ended 30 September 2006

	<i>Notes</i>	<i>Year ended 30 September 2006 £</i>	<i>Year ended 30 September 2005 £</i>
Net cash inflow from operating activities	21	8,075,989	2,799,831
Returns on investments and servicing of finance			
Interest received		451,447	394,753
Gains realised on foreign currency swaps		156,702	-
Capital expenditure and financial investment			
Purchase of fixed assets		(66,502)	(74,628)
Investment made		(1,842,105)	(2,760,906)
Acquisitions and disposals			
Net cash disposed of with subsidiary undertaking		(453,090)	-
Increase in cash		<u>6,322,441</u>	<u>359,050</u>

The Charity has no debt and consequently a reconciliation of cashflows to movement in net debt has not been prepared.

Notes to the accounts

at 30 September 2006

1. Accounting policies

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards, under the historical cost convention and in accordance with the Statement of Recommended Practice (SORP) – Accounting and Reporting by Charities.

The accounts consolidate Absolute Return for Kids (ARK) and its trading subsidiary Absolute Return for Kids (ARK) Trading Limited, and its project implementing subsidiaries, ARK (South Africa) Limited, ARK Academies (up to 31 August 2006 – see note 22) and ARK Bulgaria.

Incoming resources

All income is accounted for on an accruals basis.

Fund accounting

Restricted funds are those which are to be used for the specified purpose as laid down by the donor.

Unrestricted funds are donations and other income received or generated for the furtherance of the objects of the charity without specified purposes and therefore are available as general funds.

All income and expenditure is shown in the Statement of Financial Activities.

Resources expended

Costs of generating funds are those incurred in seeking donations for the charity and in publicising the work of the charity.

Resources expended on charitable activities comprises expenditure related to the direct furtherance of the charity's objectives. Where costs cannot be directly attributed, they have been allocated to activities on a basis consistent with the use of resources.

Governance costs are those incurred in connection with the management of the charity's assets, organisational administration and compliance with constitutional and statutory requirements.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost including any incidental expenses of acquisition. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost on a straight line basis over their expected useful economic life. The rates of depreciation applied to each class of asset are:

Computer equipment – 50% per annum

Foreign currencies

Company

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the rate of exchange ruling at the balance sheet date.

Group

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves.

Notes to the accounts

at 30 September 2006

2. Grants and Donations

	<i>Group</i>	<i>Charity</i>	<i>Group</i>	<i>Charity</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	£	£	£	£
Contributions to Core Costs	881,143	881,143	460,000	460,000
General Donations	344,594	344,594	942,704	942,704
Grants & restricted donations	584,888	391,565	74,042	-
In kind donations of office space	-	-	20,000	20,000
	<u>1,810,625</u>	<u>1,617,302</u>	<u>1,496,746</u>	<u>1,422,704</u>

The trustees ensure that the core costs of the charity are covered. Unrestricted donations and gifts includes £881,143 (2005 £460,000) funds raised and held for this purpose.

3. Fundraising Events

The charity continues to raise the majority of its funds through its annual Gala Dinner. No other fundraising events were held during the year. The income stated in the SOFA under incoming resources from fundraising events relates solely to the Gala Dinner.

4. Investment Income

Investment income arises from interest receivable on funds held in interest bearing bank accounts and on fixed term deposit.

5. Incoming resources from charitable activities

	<i>Group</i>	<i>Charity</i>	<i>Group</i>	<i>Charity</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	£	£	£	£
Fee income relating to Future Leaders	381,824	-	-	-
Fee income relating to Academies	482,473	-	117,466	-
	<u>864,297</u>	<u>-</u>	<u>117,466</u>	<u>-</u>

6. Allocation of Support

	<i>Charitable</i>	<i>Cost of</i>	<i>Governance</i>	<i>Total</i>
	<i>activity</i>	<i>generating</i>	<i>Costs</i>	
	£	<i>funds</i>	£	£
		£		
Core costs	427,501	85,500	342,001	855,002
	<u>427,501</u>	<u>85,500</u>	<u>342,001</u>	<u>855,002</u>

The trust allocates its support costs as shown in the table above then further apportions those costs between the charitable activities undertaken directly by ARK (see note 7). Core costs relate entirely to the cost of running ARK's core staff team and the London office.

As per note 2 above the trustees ensure these costs are covered by unrestricted funding raised for this purpose. The allocation of core costs as support costs to activities in notes 6 & 7 provides a more accurate picture of the full cost of those activities in accordance with SORP 2005. It does not represent an allocation of restricted funds.

Notes to the accounts

at 30 September 2006

7. Analysis of resources expended

Group

	<i>Activities undertaken directly</i>	<i>Grant funding of activities</i>	<i>Support costs</i>	<i>Total</i>
Charitable Expenditure				
HIV/AIDS	2,704,217	200,000	305,591	3,209,808
Deinstitutionalisation	191,205	2,305,476	48,366	2,545,047
UK- Education	1,268,411	1,091,680	73,544	2,433,635
Other	-	31,000	-	31,000
	<u>4,163,833</u>	<u>3,628,156</u>	<u>427,501</u>	<u>8,219,490</u>
Cost of generating funds	2,380,383	-	85,500	2,465,883
Governance costs	-	-	342,001	342,001
Total resources expended	<u>6,544,216</u>	<u>3,628,156</u>	<u>855,002</u>	<u>11,027,374</u>

Charity

	<i>Activities undertaken directly</i>	<i>Grant funding of activities</i>	<i>Support costs</i>	<i>Total</i>
Charitable Expenditure				
HIV/AIDS- ARV	6,620,000	-	193,766	6,813,766
HIV/AIDS- CABA	3,820,500	-	111,825	3,932,325
HIV/AIDS- Other	-	200,000	-	200,000
Deinstitutionalisation- HHC- E Europe	-	2,305,476	-	2,305,476
Deinstitutionalisation- Bulgaria	1,640,047	-	48,004	1,688,051
Deinstitutionalisation- Other	12,384	-	362	12,746
UK- Academies	2,000,000	-	58,539	2,058,539
UK- Future Leaders	512,637	-	15,005	527,642
UK- Extended Schools	-	192,556	-	192,556
UK- Teens & Toddlers	-	799,124	-	799,124
UK- Fairbridge	-	100,000	-	100,000
Other- Disaster	-	31,000	-	31,000
	<u>14,605,568</u>	<u>3,628,156</u>	<u>427,501</u>	<u>18,661,225</u>
Cost of generating funds	2,380,383	-	85,500	2,465,883
Governance costs	-	-	342,001	342,001
Total resources expended	<u>16,985,951</u>	<u>3,628,156</u>	<u>855,002</u>	<u>21,469,109</u>

Notes to the accounts

at 30 September 2006

8. Investments

	2006	2005
	£	£
Investment in ARK Masters Fund at 1 October	2,760,906	-
Additional investment in Fund during the year	1,842,105	2,760,906
Unrealised gain on investments	13,597	-
Market value of investment at 30 September	<u>4,616,608</u>	<u>2,760,906</u>

ARK invests its reserves to achieve the best return consistent with the stability of, and ease of access to, capital. The mix of investment instruments and the maximum total investment in each is broadly in line with independent advice obtained by the trustees. In accordance with this policy ARK held a maximum of 35% of its funds in the ARK Masters Fund during the year under review.

The balance of funds were held as cash in interest bearing bank accounts and on fixed term deposits, with the profile of the cash holdings dependant on the working capital needs of ARK's projects.

9. Net movement in funds

	<i>Group</i> 2006	<i>Charity</i> 2006	<i>Group</i> 2005	<i>Charity</i> 2005
	£	£	£	£
This is stated after charging				
Depreciation	<u>51,445</u>	<u>22,713</u>	<u>31,732</u>	<u>18,625</u>

Ernst & Young LLP undertake the audit of the ARK group on a pro bono basis

10. Fixed Assets

	<i>Group</i> <i>Computer</i> £	<i>Group</i> <i>Total</i> £	<i>Charity</i> <i>Computer</i> £	<i>Charity</i> <i>Total</i> £
Cost:				
At 1 October 2005	119,969	119,969	63,739	63,739
Additions	63,638	63,638	16,461	16,461
At 30 September 2006	<u>183,607</u>	<u>183,607</u>	<u>80,200</u>	<u>80,200</u>
Depreciation:				
At 1 October 2005	67,646	67,646	49,256	49,256
Charge for the year	51,445	51,445	22,713	22,713
At 30 September 2006	<u>119,091</u>	<u>119,091</u>	<u>71,969</u>	<u>71,969</u>
Net Book Value:				
At 30 September 2006	<u>64,516</u>	<u>64,516</u>	<u>8,231</u>	<u>8,231</u>
At 30 September 2005	<u>52,323</u>	<u>52,323</u>	<u>14,483</u>	<u>14,483</u>

Notes to the accounts

at 30 September 2006

11. Investment in Subsidiaries

The charity has a wholly owned trading subsidiary Absolute Return for Kids (ARK) Trading Limited which was established in 2002 to operate the commercial activities of the group. The subsidiary has not traded since the financial year ended 30 September 2004.

12. Debtors

	<i>Group</i> 2006 £	<i>Charity</i> 2006 £	<i>Group</i> 2005 £	<i>Charity</i> 2005 £
Receivable within one year				
Charity evening pledges	905,612	905,612	495,600	495,600
Match Funding Pledges receivable within 1 year	2,500,000	2,500,000	3,000,000	3,000,000
ARK Trading Intercompany account	-	26	-	26
ARK Schools Intercompany account	37,849	37,849	-	-
Friends of ARK administration debtor	1,238	1,238	-	-
Grant Debtors	1,533,929	1,533,929	-	-
HM Revenue & Customs- Gift Aid	318,342	318,342	-	-
Trade debtors	30,247	-	-	-
Other debtors	90,000	90,000	117,064	112,885
	<u>5,417,217</u>	<u>5,386,996</u>	<u>3,612,664</u>	<u>3,608,511</u>
Receivable after one year				
Match Funding Pledges	2,000,000	2,000,000	-	-
Total	<u>7,417,217</u>	<u>7,386,996</u>	<u>3,612,664</u>	<u>3,608,511</u>

13. Creditors: amounts falling due within one year

	<i>Group</i> 2006 £	<i>Charity</i> 2006 £	<i>Group</i> 2005 £	<i>Charity</i> 2005 £
Trade Creditors	217,026	65,450	-	-
Associated Company Creditors	160,083	160,083	-	-
Grant creditors	4,103,088	9,933,742	1,014,287	3,244,175
Accruals	89	89	61,800	61,800
	<u>4,480,286</u>	<u>10,159,364</u>	<u>1,076,087</u>	<u>3,305,975</u>

14. Creditors: amounts falling due after one year

	<i>Group</i> 2006 £	<i>Charity</i> 2006 £	<i>Group</i> 2005 £	<i>Charity</i> 2005 £
Grant creditors	317,500	8,737,021	-	2,880,073

Notes to the accounts

at 30 September 2006

15. Analysis of charitable funds

Group

	At 1 October 2005		At 30 September 2006	
	Incoming £	Outgoing £	Incoming £	Outgoing £
Restricted Funds				
HIV/AIDS	6,357,420	9,861,513	2,904,218	13,314,715
Deinstitutionalisation	-	2,967,411	1,146,232	1,821,179
UK- Education	-	613,366	512,637	100,729
Other	711,423	-	323,210	388,213
	<u>7,068,843</u>	<u>13,442,290</u>	<u>4,886,297</u>	<u>15,624,836</u>
Unrestricted Funds				
Core Funds	31,828	1,051,443	855,002	228,269
General Programme Funds	5,962,983	11,622,293	12,101,536	5,483,740
	<u>5,994,811</u>	<u>12,673,736</u>	<u>12,956,538</u>	<u>5,712,009</u>
Total	<u>13,063,654</u>	<u>26,116,026</u>	<u>17,842,835</u>	<u>21,336,845</u>

Charity

	At 1 October 2005		At 30 September 2006	
	Incoming £	Outgoing £	Incoming £	Outgoing £
Restricted Funds				
HIV/AIDS- ARV	-	562,316	562,316	-
HIV/AIDS- CABA	1,152,348	1,434,256	2,586,604	-
Deinstitutionalisation- HHC- E Europe	-	967,411	967,411	-
Deinstitutionalisation- Bulgaria	-	2,000,000	1,640,047	359,953
UK- Academies	-	2,000,000	2,000,000	-
UK- Future Leaders	-	613,366	512,637	100,729
UK- Teens & Toddlers	-	279,250	279,250	-
Other- Disaster Fund	419,213	-	31,000	388,213
Other- YIPS	292,210	-	292,210	-
	<u>1,863,771</u>	<u>7,856,599</u>	<u>8,871,475</u>	<u>848,895</u>
Unrestricted Funds				
Core Funds	31,828	1,051,443	855,002	228,269
General Programme Funds	5,604,079	11,622,292	11,742,632	5,483,739
	<u>5,635,907</u>	<u>12,673,735</u>	<u>12,597,634</u>	<u>5,712,008</u>
At 30 September 2006	<u>5,635,907</u>	<u>12,673,735</u>	<u>12,597,634</u>	<u>5,712,008</u>
Total	<u>7,499,678</u>	<u>20,530,334</u>	<u>21,469,109</u>	<u>6,560,903</u>

The directors ensure that the central administrative costs of the charity are covered. The funds raised and held for this purpose are shown as core funds in the table above. Incoming resources on the core fund for the year includes £881,144 donations and £170,299 unrealised return on investments.

Notes to the accounts

at 30 September 2006

16. Reconciliation of Consolidated Balance Sheet at 30 September 2005

In the group balance sheet at 30 September 2005 grant instalments due from ARK to its subsidiary ARK South Africa were stated under Creditors as *Donations to be made to beneficiary charities*. This treatment is correct at the level of the charity. However at the group level these items represent a restriction on funds rather than creditors. The effect of this change in treatment on the Group Balance Sheet is shown in the table below.

	<i>Previously Reported 30 September 2005 £</i>	<i>Effect of change in treatment £</i>	<i>Restated 30 Sep 2005 £</i>
Fixed assets	52,322	-	52,322
Current assets:			
Debtors	3,612,664	-	3,612,664
Cash at bank and in hand	7,713,850	-	7,713,850
Investment	2,760,906	-	2,760,906
Net Assets	<u>14,087,420</u>	-	<u>14,087,420</u>
Creditors: amounts falling due within one year	(3,401,087)	2,324,999	(1,076,088)
Net current assets	<u>10,686,333</u>	<u>2,324,999</u>	<u>13,011,332</u>
Total assets less current liabilities	10,738,655	2,324,999	13,063,654
Creditors: amounts falling due after one year	(2,880,073)	2,880,073	-
Net Assets	<u>7,858,582</u>	<u>5,205,072</u>	<u>13,063,654</u>
Funds			
Unrestricted funds:			
General fund	5,962,983	-	5,962,983
Core costs	31,828	-	31,828
Restricted funds	1,863,771	5,205,072	7,068,843
Total funds	<u>7,858,582</u>	<u>5,205,072</u>	<u>13,063,654</u>

Notes to the accounts

at 30 September 2006

17. Staff costs and numbers

	<i>Group</i> 2006 £	<i>Charity</i> 2006 £	<i>Group</i> 2005 £	<i>Charity</i> 2005 £
Salaries and wages	1,874,383	638,364	1,082,654	356,137
Social security costs	91,582	68,178	33,334	33,334
	<u>1,965,965</u>	<u>706,542</u>	<u>1,115,988</u>	<u>389,471</u>

The average number of staff employed during the period was:

<u>177</u>	<u>22</u>	<u>77</u>	<u>7</u>
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The number of staff whose emoluments were in excess of £60,000 during the year were as follows:

	<i>Group</i> 2006 £	<i>Charity</i> 2006 £	<i>Group</i> 2005 £	<i>Charity</i> 2005 £
£130,000 - £140,000	1	1	-	-
£110,000 - £120,000	3	1	-	-
£100,000 - £110,000	-	-	1	1
£90,000 - £100,000	-	-	1	1
£80,000 - £90,000	1	-	-	-

18. Directors remuneration and expenses

The charity did not pay to its trustees any remuneration or reimbursement of expenses during the year.

19. Related party transactions

During the year ARK made 2 new grants totalling £10,440,500 to its charitable subsidiary ARK (South Africa) Limited; £6,620,000 toward the ARV programme, and £3,820,500 toward the Children Affected By AIDS project (CABA). At the year end the balance payable to ARK South Africa was £12,788,949 disbursement of which will be spread over the 4 years to 2010.

During the year ARK made a grant of £1,640,047 to its charitable subsidiary ARK Bulgaria toward its deinstitutionalisation programme. At the year end the balance payable to ARK Bulgaria was £ 1,461,226 disbursement of which will be spread over the 2 years to 2008.

ARK also committed a further £2,000,000 to its (former) charitable subsidiary ARK Academies, to cover the sponsorship of Burlington Danes Academy and the core costs of the company. At the year end the balance of grant payable to ARK Academies was £1,515,364, all of which was due in less than one year.

The charity also shares its office with, and charges a reasonable proportion of the costs of running the office to ARK Academies, while a number of the charity's staff are seconded to ARK Academies at cost.

In September 2006 the charity established a new charitable subsidiary company, ARK Schools. The charity pre-financed a number of the initial expenses of the company prior to the company opening its bank account, resulting in a year end balance due to the charity of £37,849.

Notes to the accounts

at 30 September 2006

During the year the charity granted £512,637 to Future Leaders. At the year end the balance of grant payable to Future Leaders was £287,637, all of which was due in less than one year. Initially Future Leaders was run as a project within the charitable subsidiary ARK Academies. By the end of the year it was established as a separate joint venture charitable company in which ARK, the National Council for School Leadership and the Specialist Schools and Academic Trust each hold one third of the voting rights. ARK seconded two members of staff to Future Leaders at cost and provided office space which the new company pays for in proportion to the resources used.

ARK is also affiliated to Friends of Absolute Return for Kids, a US philanthropic organisation that shares the charity's objectives. During the year Friends of ARK pledged £1,433,429 to support the work of ARK, which remained payable at year end.

20. Operating lease commitments

The amounts payable in respect of operating leases shown below are analysed according to the expiry of the leases.

	<i>Group</i>	<i>Charity</i>	<i>Group</i>	<i>Charity</i>
	<i>2006</i>	<i>2006</i>	<i>2005</i>	<i>2005</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
One year	88,735	77,000	89,093	77,000
Between two and five years	3,440	-	77,000	77,000
	<u>92,175</u>	<u>77,000</u>	<u>166,093</u>	<u>154,000</u>

21. Notes to the consolidated cash flow statement

(a) Reconciliation of net incoming resources to net cash inflow from operating activities

Net incoming resources	10,395,364	3,307,979
Depreciation	52,876	31,372
Interest received	(451,447)	(394,753)
(Increase)/Decrease in debtors	(4,177,546)	(2,810,663)
Increase/(Decrease) in creditors	2,256,742	2,665,536
Net cash inflow from operating activities	<u>8,075,989</u>	<u>2,799,831</u>

(b) Reconciliation of cash flow to movement in net funds

	<i>At</i>	<i>Cash</i>	<i>At</i>
	<i>1 October</i>	<i>Flows</i>	<i>30 September</i>
	<i>2005</i>		<i>2006</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Cash at bank	<u>7,713,850</u>	<u>6,322,441</u>	<u>14,036,291</u>

Notes to the accounts

at 30 September 2006

22. ARK Academies

During the year changes were made to the Memorandum and Articles of Association of ARK Academies in line with requirements for organisations receiving funding through UK Government's City Academies programme. The changes are designed to ensure that the DfES has ultimate control over the school budget funds it provides to such organisations. The first of these funds were received by ARK Academies in September 2006. Therefore from September 2006 onwards the group accounts do not include income and expenditure relating to ARK Academies.

The group SOFA in these financial statements includes all ARK Academies income and expenditure up to 31 August 2006. The value of the ARK Academies Balance Sheet at 31 August 2006 was then transferred out of the group accounts reflecting the fact that ARK no longer has unfettered control over the assets of ARK Academies.

The group Balance Sheet at 30 September does not include ARK Academies.