

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

FINANCIAL STATEMENTS AND
AUDITORS' REPORT

JUNE 30, 2007 AND 2006

STRACK | STANFIELD, LLC

CERTIFIED PUBLIC ACCOUNTANTS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

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STRACK | STANFIELD, LLC

CERTIFIED PUBLIC ACCOUNTANTS

15825 SHADY GROVE ROAD, SUITE 40
ROCKVILLE, MARYLAND 20850-4033
(301) 519-3280 / FAX (301) 519-2790
WWW.STRACKCPAS.COM

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

We have audited the accompanying statements of financial position of APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL (School) as of June 30, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of the School. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and the District of Columbia School Reform Act, Pub. L. No 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix) (1196); D.C. Official Code 38-1802.04(11)(B)(ix)(2001), as amended. 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 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 the School as of June 30, 2007 and 2006 and the changes in net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007 on our consideration of the School's internal control over financial reporting and 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 audits.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses on page 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Rockville, Maryland
September 14, 2007

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 6,099	\$ 508
Accounts receivable	-	1,947
Prepaid expenses	46,511	2,346
Property and equipment, net (NOTE 3)	<u>27,374</u>	<u>32,642</u>
TOTAL ASSETS	<u>\$ 79,984</u>	<u>\$ 37,443</u>

LIABILITIES AND NET ASSETS (DEFICIT)

LIABILITIES

Accounts payable	\$ 28,834	\$ 1,460
Accrued payroll	38,910	16,389
Deferred revenue	67,751	-
Due to related party (NOTE 4)	<u>12,000</u>	<u>12,000</u>
Total Liabilities	<u>147,495</u>	<u>29,849</u>
NET ASSETS (DEFICIT)		
Unrestricted	<u>(67,511)</u>	<u>7,594</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 79,984</u>	<u>\$ 37,443</u>

The accompanying notes are an integral part
of these financial statements.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006

	2007		2006
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT			
Per pupil local appropriations	\$ 459,742	-	\$ 459,742
Federal entitlements and other Grants	209,841	28,500	238,341
Program revenue	51,299	-	51,299
Contributions	<u>400</u>	-	<u>400</u>
TOTAL REVENUE AND OTHER SUPPORT	721,282	28,500	749,782
NET ASSETS RELEASED FROM RESTRICTIONS	<u>28,500</u>	<u>(28,500)</u>	<u>-</u>
TOTAL REVENUE AND RECLASSIFICATIONS	<u>749,782</u>	<u>-</u>	<u>618,896</u>
EXPENSES			
Program services	758,893	-	758,893
General and administrative	61,887	-	61,887
Fundraising	<u>4,107</u>	-	<u>4,107</u>
TOTAL EXPENSES	<u>824,887</u>	<u>-</u>	<u>619,772</u>
NET DECREASE IN NET ASSETS	(75,105)	-	(876)
NET ASSETS (DEFICIT) BEGINNING OF YEAR	<u>7,594</u>	<u>-</u>	<u>8,470</u>
END OF YEAR	<u><u>\$ (67,511)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,594</u></u>

The accompanying notes are an integral part
of these financial statements.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and grantors	\$ 819,480	\$ 616,949
Cash paid to employees and suppliers	<u>(808,849)</u>	<u>(604,843)</u>
Cash Provided By Operating Activities	<u>10,631</u>	<u>12,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	<u>(5,040)</u>	<u>(34,102)</u>
Net Cash (Used For) Investing Activities	<u>(5,040)</u>	<u>(34,102)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party advances	<u>-</u>	<u>12,000</u>
Net Cash Provided By Financing Activities	<u>-</u>	<u>12,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,591	(9,996)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>508</u>	<u>10,504</u>
End of year	<u>\$ 6,099</u>	<u>\$ 508</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (75,105)	\$ (876)
Adjustments to reconcile change in net assets to net Cash provided by operating activities:		
Depreciation	10,308	8,590
Decrease (increase) in accounts receivable	1,947	(1,947)
(Increase) in prepaid expenses	(44,165)	(2,346)
Increase (decrease) in accounts payable	27,374	(7,704)
Increase in accrued payroll	22,521	16,389
Increase in deferred revenue	<u>67,751</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,631</u>	<u>\$ 12,106</u>

The accompanying notes are an integral part
of these financial statements.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

1. ORGANIZATION AND PURPOSE

AppleTree Early Learning Public Charter School was incorporated as a non-stock and not-for-profit organization on September 22, 2004 under the laws of the District of Columbia. The mission is to provide young children with the social, emotional and cognitive foundations that will enable them to succeed in school. The school implements "Open the World of Learning: A Comprehensive Early Literacy Program (OWL)" which highlights and embeds literacy learning in a comprehensive preschool program. The program addresses basic literacy skills, as well as comprehension of both story and information texts. Development of oral language is also basic to the program, given the centrality of oral language to success in literacy. AppleTree is open to any DC child in pre-school and pre-kindergarten, and admission is free.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School's financial statements are prepared on the accrual basis of accounting. Therefore, revenue and related assets are recognized when earned and expenses and related liabilities are recognized as the obligations are incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. SFAS No. 117 also requires the organization to report expenses as a decrease in unrestricted net assets whether they are incurred to satisfy a donor's restrictions or not. The school has no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Grants

Contributions and grants received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2007 AND 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The term cash as used in the accompanying financial statements includes currency on hand, demand deposits. As of June 30, 2007 and 2006 the School had no cash that exceeded federally insured limits.

Income Taxes

The School is exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code and has not been classified as a private foundation by the IRS.

Furniture and Equipment

Furniture and equipment are stated at cost, or if donated, at fair market value. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the asset are capitalized. The cost of furniture and equipment is depreciated over their estimated useful lives. Depreciation is computed using the straight-line method.

3. PROPERTY AND EQUIPMENT

The following is a summary of furniture and equipment at June 30:

	<u>2007</u>	<u>2006</u>
Landscaping and equipment	\$ 46,272	\$ 41,232
Less allowance for depreciation	<u>(18,898)</u>	<u>(8,590)</u>
Property and Equipment, net	<u>\$ 27,374</u>	<u>\$ 32,642</u>

Depreciation expense for the years ended June 30, 2007 and 2006 was \$10,308 and \$8,590, respectively.

4. RELATED PARTY TRANSACTIONS

The School was designed by AppleTree Institute for Educational Innovation, Inc. (the Institute), a not for profit organization whose mission is to increase the number of effective schools through innovation. The Institute supports the School as a strategic partner, and has made a commitment to fund any operating shortfalls of the School. During the years ended June 30, 2007 and 2006 the School subleased its facilities from the Institute (see NOTE 5), received a non-interest bearing loan of \$12,000 for operations in the year ended June 30, 2006, and received \$20,000 in professional services in the year ended June 30, 2007.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2007 AND 2006

5. LEASE COMMITMENTS

The School leases facility space under an agreement with a related party, AppleTree Institute, that began on June 15, 2006, and expires June 14, 2016, with an additional five year option to renew. The annual rent is equal to the facility fee per student received by the school from the District of Columbia, and may vary in amount from year to year. The future minimum lease payments on an annual basis are:

<u>Year Ending June 30,</u>	
2008	\$ 101,160
2009	101,160
2010	101,160
2011	101,160
2012	101,160
Thereafter	<u>404,640</u>
	<u>\$ 910,440</u>

Rent expense for the years ended June 30, 2007 and 2006 was \$101,160 and \$65,503, respectively. The amount in 2006 reflected a \$34,397 reduction for improvements made by the School.

6. LINE OF CREDIT

On January 30, 2006, the School entered into an unsecured line of credit agreement with their bank in the amount of \$30,000, with interest at prime plus 3%. No amounts were drawn down on this line of credit as of June 30, 2007 and 2006.

7. CONCENTRATIONS

The School is supported primarily through local and federal appropriations and grants. For the years ended June 30, 2007 and 2006, approximately 61% and 69%, respectively, of total revenue was provided from one local government agency.

8. CONTRACTS OVER \$25,000

In accordance with requirements of the District of Columbia Public Charter School Board, there were no new contracts in excess of \$25,000 that were entered into by the School during the year ended June 30, 2007.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007
WITH COMPARATIVE TOTALS FOR 2006

	2007			2006	
	Program	Administration	Fundraising	Total	Total
Salaries	\$ 428,926	\$ 45,196	\$ 3,000	\$ 477,122	\$ 391,748
Occupancy	93,067	7,589	504	101,160	65,503
Direct student costs	58,750	-	-	58,750	30,484
Payroll taxes	38,484	3,138	208	41,830	34,006
Benefits	35,732	2,914	193	38,839	23,718
Food service	29,372	-	-	29,372	29,546
Enrollment outreach	17,593	-	-	17,593	-
Professional fees	12,521	1,021	68	13,610	5,550
Insurance	11,793	962	64	12,819	11,301
Depreciation	10,308	-	-	10,308	8,590
Recruiting and development	9,273	-	-	9,273	4,526
Supplies	6,530	533	35	7,098	5,862
Telephone	2,645	216	14	2,875	2,620
Travel	2,305	188	12	2,505	2,694
Other office expenses	664	54	4	722	2,356
Postage and delivery	563	46	3	612	467
Printing and duplication	206	17	1	224	801
Interest	161	13	1	175	-
	<u>\$ 758,893</u>	<u>\$ 61,887</u>	<u>\$ 4,107</u>	<u>\$ 824,887</u>	<u>\$ 619,772</u>

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

We have audited the financial statements of APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL (School) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 14, 2007. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the District of Columbia School Reform Act, Pub. L. No 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix) (1196); D.C. Official Code 38-1802.04(11)(B)(ix)(2001), as amended.

Compliance

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards* or the District of Columbia School Reform Act, Pub. L. No 104-134, 110 Stat. 1321-121, 2204(c)(11)(B)(ix) (1196); D.C. Official Code 38-1802.04(11)(B)(ix)(2001), as amended.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the school's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Strack | Stanfield

Rockville, Maryland
September 14, 2007