

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

FINANCIAL STATEMENTS AND
AUDITORS' REPORT

JUNE 30, 2008 AND 2007

STRACK | STANFIELD, LLC

CERTIFIED PUBLIC ACCOUNTANTS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

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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, 2008 and 2007 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 audits.

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. 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, 2008 and 2007 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 October 8, 2008 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
October 8, 2008

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 252,400	\$ 6,099
Accounts receivable	39,142	-
Prepaid expenses	7,272	46,511
Property and equipment, net (NOTE 3)	<u>73,468</u>	<u>27,374</u>
TOTAL ASSETS	<u>\$ 372,282</u>	<u>\$ 79,984</u>

LIABILITIES AND NET DEFICIT

LIABILITIES		
Accounts payable	\$ 4,681	\$ 28,834
Accrued payroll	206,357	38,910
Deferred revenue	170,469	67,751
Due to related party (NOTE 4)	<u>-</u>	<u>12,000</u>
Total Liabilities	<u>381,507</u>	<u>147,495</u>
NET DEFICIT		
Unrestricted	<u>(9,225)</u>	<u>(67,511)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 372,282</u>	<u>\$ 79,984</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, 2008
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2007

	2008		2007
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT			
Per pupil local appropriations	\$ 1,949,366	-	\$ 1,949,366
Federal entitlements and other Grants	535,533	30,000	565,533
Program revenue	103,156	-	103,156
Contributions	<u>575</u>	-	<u>575</u>
TOTAL REVENUE AND OTHER SUPPORT	2,588,630	30,000	2,618,630
NET ASSETS RELEASED FROM RESTRICTIONS	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>
TOTAL REVENUE AND RECLASSIFICATIONS	<u>2,618,630</u>	<u>-</u>	<u>2,618,630</u>
EXPENSES			
Program services	2,417,775	-	2,417,775
General and administrative	137,478	-	137,478
Fundraising	<u>5,091</u>	-	<u>5,091</u>
TOTAL EXPENSES	<u>2,560,344</u>	<u>-</u>	<u>2,560,344</u>
NET INCREASE (DECREASE) IN NET ASSETS	58,286	-	(75,105)
NET (DEFICIT) ASSETS BEGINNING OF YEAR	<u>(67,511)</u>	<u>-</u>	<u>(67,511)</u>
END OF YEAR	<u>\$ (9,225)</u>	<u>\$ -</u>	<u>\$ (9,225)</u>
			<u>\$ (67,511)</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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and grantors	\$ 2,682,206	\$ 819,480
Cash paid to employees and suppliers	<u>(2,352,400)</u>	<u>(808,849)</u>
Cash Provided By Operating Activities	<u>329,806</u>	<u>10,631</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	<u>(71,505)</u>	<u>(5,040)</u>
Net Cash (Used For) Investing Activities	<u>(71,505)</u>	<u>(5,040)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of related party advances	<u>(12,000)</u>	<u>-</u>
Net Cash (Used For) Financing Activities	<u>(12,000)</u>	<u>-</u>
NET INCREASE IN CASH	246,301	5,591
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>6,099</u>	<u>508</u>
End of year	<u>\$ 252,400</u>	<u>\$ 6,099</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 58,286	\$ (75,105)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	25,411	10,308
(Increase) decrease in accounts receivable	(39,142)	1,947
Decrease (increase) in prepaid expenses	39,239	(44,165)
(Decrease) increase in accounts payable	(24,153)	27,374
Increase in accrued payroll	167,447	22,521
Increase in deferred revenue	<u>102,718</u>	<u>67,751</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 329,806</u>	<u>\$ 10,631</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, 2008 AND 2007

1. ORGANIZATION AND PURPOSE

AppleTree Early Learning Public Charter School (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.

The School opened its second and third campus during the year ended June 30, 2008.

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.

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, 2008 AND 2007

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. The School has concentrated its credit risk for cash by maintaining deposits in banks in excess of the \$100,000 federally insured limit. As of June 30, 2008 and 2007, the School has \$165,339 and -0-, in excess of that limit. The School has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash held by this financial institution.

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>2008</u>	<u>2007</u>
Furniture and equipment	\$ 117,777	\$ 46,272
Less allowance for depreciation	<u>(44,309)</u>	<u>(18,898)</u>
Property and Equipment, net	<u>\$ 73,468</u>	<u>\$ 27,374</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$25,411 and \$10,308, 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, 2008 and 2007 the School subleased its facilities from the Institute (see NOTE 5), and received \$20,000 in professional services in the year ended June 30, 2007. As of June 30, 2008 and 2007 the School's outstanding balance in advances from the Institute were \$-0- and \$12,000, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008 AND 2007

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>	
2009	\$ 441,478
2010	441,478
2011	441,478
2012	441,478
2013	441,478
Thereafter	<u>1,324,434</u>
	<u>\$ 3,531,824</u>

Rent expense for the years ended June 30, 2008 and 2007 was \$441,478 and \$101,160, respectively.

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, 2008 and 2007.

7. CONCENTRATIONS OF RISK

The School is supported primarily through local and federal appropriations and grants. For the years ended June 30, 2008 and 2007, approximately 74% and 61%, respectively, of total revenue was provided from one local government agency.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008
WITH COMPARATIVE TOTALS FOR 2007

	2008			2007	
	Program	Administration	Fundraising	Total	Total
Salaries	\$ 1,229,842	\$ 93,461	\$ 3,462	\$ 1,326,765	\$ 477,122
Occupancy	473,141	26,903	996	501,040	101,160
Direct student costs	209,056	-	-	209,056	58,750
Benefits	120,168	6,833	253	127,254	38,839
Food service	128,682	-	-	128,682	29,372
Payroll taxes	95,518	5,431	201	101,150	41,830
Enrollment outreach	39,467	-	-	39,467	17,593
Supplies	24,797	1,410	52	26,259	7,098
Depreciation	25,411	-	-	25,411	10,308
Professional fees	16,044	912	34	16,990	13,610
Insurance	12,305	700	26	13,031	12,819
Telephone	14,324	814	30	15,168	2,875
Staff development	11,213	-	-	11,213	9,273
Other office expenses	6,430	366	14	6,810	722
Travel	4,837	275	10	5,122	2,505
Printing and duplication	2,787	158	6	2,951	224
Technology expense	1,736	99	4	1,839	-
Postage and delivery	1,339	76	3	1,418	612
Miscellaneous	373	21	-	394	-
Interest	305	19	-	324	175
	<u>\$ 2,417,775</u>	<u>\$ 137,478</u>	<u>\$ 5,091</u>	<u>\$ 2,560,344</u>	<u>\$ 824,887</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, 2008 and 2007, and have issued our report thereon dated October 8, 2008. 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.

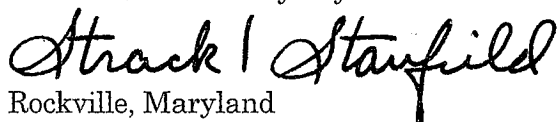
Internal Control Over Financial Reporting

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.

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*.

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.


Rockville, Maryland

October 8, 2008

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees
APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

Compliance

We have audited the compliance of APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL (School) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School's major federal programs are identified in the summary of auditors' results section in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audits.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133 AND ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was made for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local governments, and Non Profit Organizations*, and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audits 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.

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
October 8, 2008

THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2008

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education/District of Columbia Public Schools:		
Title I Grants to Local Education Agencies	84.010A	\$ 110,132
Title V, Part B – Public Charter Schools Program Grant	84.173	247,880
Flexible Funds Grant RFA #GD-FFG-07	N/A	<u>72,383</u>
Sub-total Department of Education		<u>430,395</u>
US Department of Agriculture/ District of Columbia State Education Office:		
National School Lunch Program	10.555	<u>79,791</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 510,186</u>

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*.

THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

A) SUMMARY OF AUDIT RESULTS

- 1) The auditors' report expresses an unqualified opinion on the financial statements of THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL.
- 2) No reportable conditions were disclosed during the audit of the financial statements of THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL.
- 3) No instances of noncompliance material to the financial statements of THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
- 4) No reportable conditions were disclosed during the audit of the major federal program for THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL.
- 5) The auditors' report on compliance for the major federal award program for THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL expresses an unqualified opinion.
- 6) No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported on this schedule.
- 7) The programs tested as a major programs were the U.S. Department of Education/District of Columbia Public Schools/ Title V, Part B – Public Charter Schools Program Grant and the Flexible Funds Grant RFA #GD-FFG-07.
- 8) The threshold for distinguishing Types A and B programs was \$300,000.
- 9) THE APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL did not qualify as a low-risk auditee.

B) SCHEDULE OF CURRENT YEAR AUDIT FINDINGS:

None

C) SCHEDULE OF PRIOR YEAR AUDIT FINDINGS:

None