

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

FINANCIAL STATEMENTS AND
AUDITORS' REPORT

JUNE 30, 2009 AND 2008

STRACK | STANFIELD, LLC

CERTIFIED PUBLIC ACCOUNTANTS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO THE FINANCIAL STATEMENTS	5-7
SUPPLEMENTAL INFORMATION	
SCHEDULE OF FUNCTIONAL EXPENSES	8
INDEPENDENT AUDITORS' 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	9-10

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, 2009 and 2008 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 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 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, 2009 and 2008 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 4, 2009 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 4, 2009

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 860,260	\$ 252,400
Accounts receivable	88,253	39,142
Prepaid expenses	20,760	7,272
Property and equipment, net (NOTE 3)	<u>52,619</u>	<u>73,468</u>
TOTAL ASSETS	<u>\$ 1,021,892</u>	<u>\$ 372,282</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 3,275	\$ 4,681
Accrued payroll	213,487	206,357
Deferred revenue	141,195	170,469
Due to related party (NOTE 4)	<u>160,224</u>	<u>-</u>
Total Liabilities	<u>518,181</u>	<u>381,507</u>

NET ASSETS

Unrestricted	297,637	(9,225)
Temporarily restricted	<u>206,074</u>	<u>-</u>
Total net assets	<u>503,711</u>	<u>(9,225)</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,021,892</u>	<u>\$ 372,282</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, 2009
WITH COMPARATIVE TOTALS AS OF JUNE 30, 2008

	2009		2008
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE AND OTHER SUPPORT			
Per pupil local appropriations	\$ 3,023,473	-	\$ 3,023,473
Federal entitlements and other Grants	242,868	-	242,868
Program revenue	127,172	-	127,172
Contributions	<u>1,402</u>	<u>250,000</u>	<u>251,402</u>
TOTAL REVENUE AND OTHER SUPPORT	3,394,915	250,000	3,644,915
NET ASSETS RELEASED FROM RESTRICTIONS	<u>43,926</u>	<u>(43,926)</u>	<u>-</u>
TOTAL REVENUE AND RECLASSIFICATIONS	<u>3,438,841</u>	<u>206,074</u>	<u>3,644,915</u>
EXPENSES			
Program services	2,988,811	-	2,988,811
General and administrative	136,245	-	136,245
Fundraising	<u>6,923</u>	<u>-</u>	<u>6,923</u>
TOTAL EXPENSES	<u>3,131,979</u>	<u>-</u>	<u>3,131,979</u>
NET INCREASE IN NET ASSETS	306,862	206,074	512,936
NET (DEFICIT) ASSETS BEGINNING OF YEAR	<u>(9,225)</u>	<u>-</u>	<u>(9,225)</u>
END OF YEAR	<u>\$ 297,637</u>	<u>\$ 206,074</u>	<u>\$ 503,711</u>
			<u>\$ (9,225)</u>
			<u>\$ 58,286</u>
			<u>\$ 2,618,630</u>
			<u>\$ 1,949,366</u>
			<u>565,533</u>
			<u>103,156</u>
			<u>575</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributors and grantors	\$ 3,566,530	\$ 2,682,206
Cash paid to employees and suppliers	<u>(3,103,828)</u>	<u>(2,352,400)</u>
Cash Provided By Operating Activities	<u>462,702</u>	<u>329,806</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	<u>(15,066)</u>	<u>(71,505)</u>
Net Cash (Used For) Investing Activities	<u>(15,066)</u>	<u>(71,505)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts (payments) of related party advances	<u>160,224</u>	<u>(12,000)</u>
Net Cash Provided By (Used For) Financing Activities	<u>160,224</u>	<u>(12,000)</u>
NET INCREASE IN CASH	607,860	246,301
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>252,400</u>	<u>6,099</u>
End of year	<u>\$ 860,260</u>	<u>\$ 252,400</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 512,936	\$ 58,286
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	35,915	25,411
(Increase) in accounts receivable	(49,111)	(39,142)
(Increase) decrease in prepaid expenses	(13,488)	39,239
(Decrease) in accounts payable	(1,804)	(24,153)
Increase in accrued payroll	7,528	167,447
(Decrease) increase in deferred revenue	<u>(29,274)</u>	<u>102,718</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 462,702</u>	<u>\$ 329,806</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, 2009 AND 2008

1. ORGANIZATION AND PURPOSE

AppleTree Early Learning Public Charter School (School) was incorporated as a non-stock and not-for-profit organization in September 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, 2009 AND 2008

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 \$250,000 federally insured limit. As of June 30, 2009 and 2008, the School has \$635,992 and \$165,339, 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>2009</u>	<u>2008</u>
Furniture and equipment	\$ 132,843	\$ 117,776
Less allowance for depreciation	<u>(80,224)</u>	<u>(44,309)</u>
Property and Equipment, net	<u>\$ 52,619</u>	<u>\$ 73,468</u>

Depreciation expense for the years ended June 30, 2009 and 2008 was \$35,915 and \$25,411, 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. The School leases its facilities from the Institute (see NOTE 5). As of June 30, 2009 and 2008 the School's outstanding balance due to the Institute was \$160,224 and \$-0-, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2009 AND 2008

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>	
2010	\$ 559,620
2011	559,620
2012	559,620
2013	559,620
Thereafter	<u>1,678,860</u>
	<u>\$ 3,917,340</u>

Rent expense for the years ended June 30, 2009 and 2008 was \$560,052 and \$441,478, 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, 2009 and 2008.

7. CONCENTRATIONS OF RISK

The School is supported primarily through local and federal appropriations and grants. For the years ended June 30, 2009 and 2008, approximately 83% and 74%, 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, 2009
WITH COMPARATIVE TOTALS FOR 2008

	2009			Total	2008
	Program	Administration	Fundraising		Total
Salaries	\$ 1,496,746	\$ 85,252	\$ 4,331	\$ 1,586,329	\$ 1,326,765
Occupancy	657,889	29,990	1,524	689,403	501,040
Direct student costs	177,277	-	-	177,277	209,056
Benefits	167,655	7,643	388	175,686	127,254
Food service	156,614	-	-	156,614	128,682
Payroll taxes	137,385	6,263	318	143,966	101,150
Enrollment outreach	19,826	-	-	19,826	39,467
Supplies	11,433	521	27	11,981	26,259
Depreciation	34,274	1,562	79	35,915	25,411
Professional fees	36,771	1,676	85	38,532	16,990
Insurance	34,433	1,569	80	36,082	13,031
Telephone	18,355	837	43	19,235	15,168
Professional development	19,707	-	-	19,707	11,213
Other office expenses	8,856	404	20	9,280	6,810
Travel	8,401	383	19	8,803	5,122
Printing and duplication	1,859	85	4	1,948	2,951
Technology expense	-	-	-	-	1,839
Postage and delivery	985	45	2	1,032	1,418
Miscellaneous	-	-	-	-	394
Interest	345	16	2	363	324
	<u>\$ 2,988,811</u>	<u>\$ 136,245</u>	<u>\$ 6,923</u>	<u>\$ 3,131,979</u>	<u>\$ 2,560,344</u>

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 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

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 year ended June 30, 2009 and have issued our report thereon dated October 4, 2009. We conducted our audit 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 audit, we considered the 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 the 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 *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

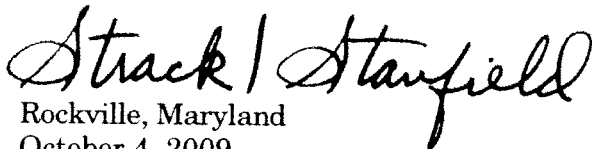
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITORS' 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 (CONTINUED)

Compliance and Other Matters

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 4, 2009