

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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I N D E X

	<u>Page</u>
Independent Auditor's Report	1-2
Comparative Statements of Financial Position, June 30, 2017 and 2016	3
Comparative Statements of Activities, For the Years Ended June 30, 2017 and 2016	4
Comparative Statements of Cash Flows, For the Years Ended June 30, 2017 and 2016	5
Notes to Financial Statements	6-19
Supplemental Information	
Schedule 1 - Comparative Schedules of Functional Expenses, For the Years Ended June 30, 2017 and 2016	20-21
Schedule 2 - Comparative Schedules of Average Cost per Student, For the Years Ended June 30, 2017 and 2016	22
Schedule 3 - Schedule of Expenditures of Federal Awards, For the Year Ended June 30, 2017	23-24
Notes to Schedule of Expenditures of Federal Awards	25-26
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	29-30
Summary Schedule of Prior Audit Findings, For the Year Ended June 30, 2017	31
Schedule of Findings and Questioned Costs, For the Year Ended June 30, 2017	32

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Trustees
AppleTree Early Learning
Public Charter School
415 Michigan Ave, NE
Washington, DC 20017

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the AppleTree Early Learning Public Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

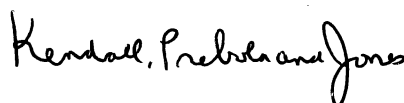
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the AppleTree Early Learning Public Charter School, as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses and schedules of average cost per student are presented for purposes of additional analysis and are not a required part of the financial statements. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the AppleTree Early Learning Public Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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* in considering the AppleTree Early Learning Public Charter School's internal control over financial reporting and compliance.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
October 11, 2017

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

<u>ASSETS</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 4,239,590	\$ 3,723,719
Accounts Receivable	181,733	276,951
Grants Receivable	159,777	198,060
Prepaid Expenses	<u>34,241</u>	<u>60,129</u>
Total Current Assets	<u>\$ 4,615,341</u>	<u>\$ 4,258,859</u>
<u>Fixed Assets:</u>		
Land	\$ 184,418	\$ 184,418
Furniture and Equipment	858,727	831,976
Leasehold Improvements	5,026,764	5,026,764
Less: Accumulated Depreciation and Amortization	<u>(2,228,659)</u>	<u>(1,805,988)</u>
Total Fixed Assets	<u>\$ 3,841,250</u>	<u>\$ 4,237,170</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 50,000</u>	<u>\$ 54,741</u>
Total Other Assets	<u>\$ 50,000</u>	<u>\$ 54,741</u>
TOTAL ASSETS	<u>\$ 8,506,591</u>	<u>\$ 8,550,770</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 117,937	\$ 198,762
Due to Related Parties, Net	28,155	95,412
Payroll and Related Liabilities	612,904	618,981
Deferred Tuition Fees	23,294	4,063
Current Portion of Bonds Payable	<u>200,423</u>	<u>200,423</u>
Total Current Liabilities	<u>\$ 982,713</u>	<u>\$ 1,117,641</u>
<u>Long-Term Liabilities:</u>		
Bonds Payable	\$ 2,107,680	\$ 2,308,103
Less: Current Portion	<u>(200,423)</u>	<u>(200,423)</u>
Total Long-Term Liabilities	<u>\$ 1,907,257</u>	<u>\$ 2,107,680</u>
Total Liabilities	<u>\$ 2,889,970</u>	<u>\$ 3,225,321</u>
<u>Net Assets:</u>		
Unrestricted	\$ 5,614,121	\$ 5,325,449
Temporarily Restricted	<u>2,500</u>	<u>-</u>
Total Net Assets	<u>\$ 5,616,621</u>	<u>\$ 5,325,449</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,506,591</u>	<u>\$ 8,550,770</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>			<u>June 30, 2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenues and Other Support:</u>						
Tuition - Per Pupil Funding Allocation	\$ 9,467,545	\$ -	\$ 9,467,545	\$ 9,753,262	\$ -	\$ 9,753,262
Tuition - Facilities Allowance	1,971,244	-	1,971,244	2,039,972	-	2,039,972
Federal Entitlements and Grants	777,013	-	777,013	840,719	-	840,719
State Government Grants	132,331	-	132,331	65,696	-	65,696
Local Sourced Funding	1,437	2,500	3,937	209,651	-	209,651
Service Fees	274,457	-	274,457	324,830	-	324,830
Student Activity Fees and Other	318,174	-	318,174	316,071	-	316,071
Interest and Dividends	25,520	-	25,520	21,544	-	21,544
Donated Services and Materials	-	-	-	2,600	-	2,600
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>\$ 12,967,721</u>	<u>\$ 2,500</u>	<u>\$ 12,970,221</u>	<u>\$ 13,574,345</u>	<u>\$ -</u>	<u>\$ 13,574,345</u>
<u>Expenses:</u>						
Educational Services	\$ 11,498,067	\$ -	\$ 11,498,067	\$ 11,545,385	\$ -	\$ 11,545,385
General and Administrative	1,180,982	-	1,180,982	1,290,109	-	1,290,109
Fundraising	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	<u>\$ 12,679,049</u>	<u>\$ -</u>	<u>\$ 12,679,049</u>	<u>\$ 12,835,494</u>	<u>\$ -</u>	<u>\$ 12,835,494</u>
Changes in Net Assets	\$ 288,672	\$ 2,500	\$ 291,172	\$ 738,851	\$ -	\$ 738,851
Net Assets, Beginning of Year	<u>5,325,449</u>	<u>-</u>	<u>5,325,449</u>	<u>4,586,598</u>	<u>-</u>	<u>4,586,598</u>
Net Assets, End of Year	<u>\$ 5,614,121</u>	<u>\$ 2,500</u>	<u>\$ 5,616,621</u>	<u>\$ 5,325,449</u>	<u>\$ -</u>	<u>\$ 5,325,449</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 291,172	\$ 738,851
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	422,670	455,552
Amortization - Bond Issuance Costs	19,369	19,369
Accounts Receivable - (Increase)/Decrease	95,218	(48,689)
Grants Receivable - (Increase)/Decrease	38,283	(251,155)
Prepaid Expenses - (Increase)/Decrease	25,889	62,779
Deposits - (Increase)/Decrease	4,741	(4,429)
Restricted Cash - (Increase)/Decrease	-	207,941
Accounts Payable and Accrued Expenses - Increase/(Decrease)	(80,825)	17,757
Due to Related Parties, Net - Increase/(Decrease)	(67,257)	(82,263)
Payroll and Related Liabilities - Increase/(Decrease)	(6,077)	37,288
Deferred Revenue - Increase/(Decrease)	<u>19,231</u>	<u>(1,555)</u>
Net Cash Flows from Operating Activities	<u>\$ 762,414</u>	<u>\$ 1,151,446</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	\$ (26,751)	\$ (31,939)
Payments for Leasehold Improvements	<u>-</u>	<u>(8,530)</u>
Net Cash Flows from Investing Activities	<u>\$ (26,751)</u>	<u>\$ (40,469)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayment of Bond Proceeds	<u>\$ (219,792)</u>	<u>\$ (219,792)</u>
Net Cash Flows from Financing Activities	<u>\$ (219,792)</u>	<u>\$ (219,792)</u>
Net Increase in Cash and Cash Equivalents	\$ 515,871	\$ 891,185
Cash and Cash Equivalents at Beginning of Year	<u>3,723,719</u>	<u>2,832,534</u>
Cash and Cash Equivalents at End of Year	<u>\$ 4,239,590</u>	<u>\$ 3,723,719</u>

Supplemental Disclosures:

- a) No income taxes were paid during the years ended June 30, 2017 and 2016.
- b) No interest was paid during the years ended June 30, 2017 and 2016.

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

The AppleTree Early Learning Public Charter School (the Charter School), a District of Columbia Not-for-Profit Corporation, was incorporated on September 22, 2004, exclusively for educational purposes. The mission of the Charter School is to close the achievement gap before children get to kindergarten by providing three- and four-year-olds with the social, emotional, and cognitive foundations that will enable them to succeed in school.

Description of Program Services

The Charter School is open to any Washington, DC, child in pre-school and pre-kindergarten and admission is free. The Charter School currently serves 631 children at six public charter preschool campuses across the District. In 2014-15, the Charter School successfully concluded its ten-year charter review with its authorizer, the DC Public Charter School Board, and received approval to increase its enrollment cap to 833 students for the 2016-2017 school year.

The Charter School utilizes the comprehensive and evidence-based *Every Child Ready* instructional model that was developed by AppleTree Institute for Education Innovation with the assistance of an Investing in Innovation (i3) grant from the US Department of Education. The model builds language, literacy, and memory skills using regular assessments and data outcomes throughout the school year. Emphasis is placed on student growth, differentiated by students' baseline knowledge.

The Charter School's primary sources of support are local appropriations for charter schools from the District of Columbia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Federal and Charter School Funding

The Charter School receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allotment. The Charter School recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as a refundable advance. Federal entitlements are recognized based on the allowable costs incurred.

Contributions

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Contributions (Continued)

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Extended Learning Day Program

The Charter School offers fee-based extended day programming for its students. The hours of operation are structured to coincide with the typical workday of parents of the students. Both the before and after care programs offer food services. Tuition is collected based on a monthly fee. The amount of tuition ranges from full tuition to reduced tuition based on program income guidelines.

(c) Corporate Taxes:

The Charter School is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. Accordingly, no provisions for income taxes have been provided for in the accompanying financial statements. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). The Charter School did not have any net unrelated business income for the years ended June 30, 2017 and 2016.

The Charter School is also exempt from District of Columbia sales, real estate and personal property taxes.

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia and recorded as costs are incurred. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms of the appropriate grantor. No provision for possible adjustments for disallowed costs has been made in the accompanying financial statements, as management believes any such adjustment would not have a material effect on the financial statements.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) Grants: (Continued)

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*, which requires reporting information regarding its financial position and activities according to three classes of net assets.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to donor-imposed restrictions and over which the Board of Trustees has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed restrictions that may meet, or will be met, by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no net assets released from donor restrictions during the year.

Temporarily restricted net assets were available at year end for the following purpose:

	<u>June 30, 2017</u>
Family Engagement Workshop	\$ <u>2,500</u>
Total	\$ <u><u>2,500</u></u>

Permanently Restricted Net Assets

Net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2017 and 2016.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services, Materials and Facilities:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Contributed services and promises to give services that do not meet the above criteria are not recognized. In-kind contributions for space, supplies, and professional services are recorded in the statement of activities at estimated fair value and recognized as revenue and expense in the period they are received, except for donated fixed assets, which is recorded as revenue in the period received and the asset is depreciated over its estimated useful life.

The estimated value of donated facilities has been recorded in the financial statements as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Facilities	\$ -	\$ 2,600
Total	\$ -	\$ 2,600

A number of volunteers donated significant amounts of their time in the Charter School's supporting services for which no value has been assigned. The time contributed by the Charter School's Board of Trustees is uncompensated and is not reflected as donated services.

(g) Functional Expense Allocation Policies and Procedures:

The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students and include direct student expenses, such as textbooks, materials, assessment material, and contractual educational services. General and administrative costs pertain to supporting activities. Fundraising costs relate to fundraising activities such as special events, fundraisers and soliciting of contributions.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources.

(h) Use of Estimates:

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

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(i) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

(j) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

(k) Reclassification:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications had no effect on the change in the net assets or to total net assets from the prior years.

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2017, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2017, the statute of limitations for tax years 2013 through 2015 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2017, the Charter School had no accruals for interest and/or penalties.

4. CASH AND CASH EQUIVALENTS:

The carrying amount of cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Demand Deposits	\$ 3,003,014	\$ -
Non-Interest Bearing Checking Accounts	1,101,511	652,520
Repurchase Account	-	2,863,258
Money Market	-	207,941
Checks on Hand	<u>135,065</u>	<u>-</u>
Total	<u>\$ 4,239,590</u>	<u>\$ 3,723,719</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS: (Continued)

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less. Total cash and cash equivalents does not include cash held in trust for debt service.

The Charter School maintains its operating funds in two separate financial institutions. These accounts are covered under the Federal Deposit Insurance Corporation (FDIC) program. Federal Deposit Insurance Corporation Insurance coverage is \$250,000 per account category. Deposits held in non-interest-bearing transaction accounts are aggregated with interest-bearing deposits and the combined total insured up to \$250,000.

As of June 30, 2017 and 2016, \$758,484 and \$382,895, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Deposit Placement and Sweep Agreements

In order to minimize credit risk on deposits, the Charter School has entered into a deposit placement agreement with United Bank. Through this agreement, funds deposited in excess of \$400,000 are transferred by the bank to other depository institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are held in Demand Deposit Accounts (DDA) with the financial institutions which provides for unlimited withdrawals.

The Charter School participated in a sweep-account agreement with United Bank whereby, on a daily basis at the close of business, available funds in excess of \$400,000 were automatically invested into a separately maintained investment fund offered by United Bank. This fund was not a deposit account within the meaning of the Federal Deposit Insurance Act and was not insured or guaranteed by United Bank. These investments were insured by the Securities Investor Protection Corporation (SIPC) for loss, theft, or destruction of securities while in the brokerage firm's custody. Because of newly enacted legislation, the sweep account was discontinued during the month of September 2016.

5. ACCOUNTS AND GRANTS RECEIVABLE:

Accounts and grants receivable balances as of June 30, 2017 and 2016 consisted of the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Accounts Receivable:</u>		
Per Pupil Funding	\$ 42,644	\$ 41,472
Reimbursable Expenses - Property Taxes	81,557	61,740
E-Rate Program	1,471	34,463
Every Child Ready	47,775	31,850
Medicaid - School Based Services	1,836	106,444
Reimbursable Expenses - Other	<u>6,450</u>	<u>982</u>
Total Accounts Receivable	<u>\$ 181,733</u>	<u>\$ 276,951</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS AND GRANTS RECEIVABLE: (Continued)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<u>Grants Receivable:</u>		
Early Care and Education Assistance	\$ 28,811	\$ 20,574
Healthy Schools Act	2,592	2,754
National Food Programs	48,331	58,974
SOAR - Early Childhood	80,043	113,644
Other	<u>-</u>	<u>2,114</u>
Total Grants Receivable	<u>\$ 159,777</u>	<u>\$ 198,060</u>

Accounts and grants receivable are current and considered by management to be fully collectible.

Accounts and grants receivable are recorded when billed or accrued and reported net of an allowance for doubtful accounts, if any. Management provides for probable uncollectible amounts through bad debt expense and only after reasonable collection efforts have been exhausted. Management believes that no allowance for doubtful accounts is required at June 30, 2017 and 2016.

Trade receivables related to program service fees (activity fees, before and after care, etc.) are recognized as revenue at the time the program activity has occurred. Trade receivables are written off as uncollectible when payment has not been received after 180 days.

6. FIXED ASSETS:

Furniture and equipment are recorded at cost. Contributed property is recorded at fair market value at the date of the contribution. The Charter School uses a capitalization threshold of \$1,000 and an estimated useful life greater than one year. As assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in that period. Depreciation has been recorded on the straight-line method over the estimated useful lives of the assets.

Major classifications of fixed assets and their estimated useful lives are as summarized below:

<u>June 30, 2017</u>	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	N/A	\$ 184,418	\$ -	\$ 184,418
Furniture and Equipment	7 Years	494,016	(461,692)	32,324
Computer Equipment	3 Years	364,711	(314,065)	50,646
Leasehold Improvements	45 Months	<u>5,026,764</u>	<u>(1,452,902)</u>	<u>3,573,862</u>
Total		<u>\$ 6,069,909</u>	<u>\$ (2,228,659)</u>	<u>\$ 3,841,250</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

June 30, 2016

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	N/A	\$ 184,418	\$ -	\$ 184,418
Furniture and Equipment	7 Years	490,188	(421,376)	68,812
Computer Equipment	3 Years	341,788	(259,930)	81,858
Leasehold Improvements	45 Months	<u>5,026,764</u>	<u>(1,124,682)</u>	<u>3,902,082</u>
Total		<u>\$ 6,043,158</u>	<u>\$ (1,805,988)</u>	<u>\$ 4,237,170</u>

Depreciation and amortization expense for the years ended June 30, 2017 and 2016, was \$422,670 and \$455,552, respectively.

7. LONG-TERM DEBT LIABILITIES - BONDS ISSUANCE COSTS:

Bond issuance costs consist of acquisition costs related to the bond financing used to fund the Charter School's capital renovations at two campuses. These costs are amortized on a straight-line basis over 17 years (the life of the bonds). During the year ended June 30, 2017, the Charter School retroactively adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Current amortization of these costs is reported as interest in the schedule of functional expenses. Bond amortization was \$19,369 for both years ended June 30, 2017 and 2016.

Bond issuance costs as of June 30, 2016, were previously reported on the statement of financial position as an other asset, net of amortization in the amount of \$219,517.

Long-term debt at June 30, 2017 and 2016, was as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Bonds Payable	\$ 2,307,828	\$ 2,527,620
Less: Unamortized Debt Issuance Costs	<u>(200,148)</u>	<u>(219,517)</u>
Subtotal	<u>\$ 2,107,680</u>	<u>\$ 2,308,103</u>
Less: Current Portion - Principal	\$ (219,792)	\$ (219,792)
Less: Current Portion - Debt Issuance Amortization	<u>19,369</u>	<u>19,369</u>
Total Long-Term Debt, Less Current Portion	<u>\$ 1,907,257</u>	<u>\$ 2,107,680</u>

8. BONDS PAYABLE:

On November 1, 2010, the Charter School, through the District of Columbia, issued \$3,535,000 of District of Columbia Revenue Bond Series 2010. The bonds are scheduled to mature on December 1, 2027. The interest rate on the bonds was determined by taking the sum of the original purchaser's five-year cost of funds rate, plus 3.5%, less the tax credit of 5.36%, resulting in a zero (0%) interest rate to the Charter School. Proceeds were used for renovations of two leased school buildings at 138 12th Street NE, Washington, DC (Lincoln Park) and at 2015-17 Savannah Terrace SC, Washington, DC (Douglas Knoll).

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. BONDS PAYABLE: (Continued)

The bonds are collateralized by the assets and the per pupil facilities fees at the two campuses. The bonds require principal payments to a sinking fund in the amount of \$18,316 per month commencing on December 1, 2011, and continuing until the maturity date. The bonds have three scheduled call dates of December 1, 2015, 2020, and 2026. The bonds are guaranteed in full by the AppleTree Institute for Education Innovation (ATI), a related party.

Principal payments of \$219,792 were made during the fiscal years ended June 30, 2017 and 2016. The principal balance was \$2,307,828 and \$2,527,620 at June 30, 2017 and 2016, respectively.

Annual maturities of the bonds payable as of June 30 follow:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2018	\$ 219,792	\$	-	\$	219,792
2019	219,792		-		219,792
2020	219,792		-		219,792
2021	219,792		-		219,792
2022	219,792		-		219,792
Thereafter	<u>1,208,868</u>		<u>-</u>		<u>1,208,868</u>
Total	<u>\$ 2,307,828</u>	\$	<u>-</u>	\$	<u>2,307,828</u>

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Charter School's fiscal management and academic acceptability. The contract dated June 8, 2005, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about January 1, 2020. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Charter School complies with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the Charter School's charter every five years. The first such review occurred in the spring of 2010. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. In the past year, the Charter School successfully concluded its ten-year charter review with its authorizer, the DC Public Charter School Board. Management does not anticipate non-renewal or revocation of its charter.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2017 and 2016, the Charter School incurred \$124,149 and \$138,112, respectively, in administrative fees.

The charter contract provides that the Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2017, was 833 students. Actual enrollment for the 2016/2017 year was 631 students.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

10. PER PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per pupil educational allotments and facility allotments. This funding is calculated annually and based on the equivalent number of full-time students. For the year ended June 30, 2017, the per pupil rate ranged from \$12,587 to \$12,974 for the educational allotment and \$3,124 for the facility allotment. For the year ended June 30, 2016, the per pupil rate ranged from \$12,340 to \$12,719 for the educational allotment and \$3,124 for the facility allotment. Additional allotments were given for Special Education needs and At Risk Students. Per-pupil funding for the years ended June 30, 2017 and 2016 was as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
General Education	\$ 8,498,180	\$ 8,567,004
Facilities Allowance	1,971,244	2,039,972
At Risk Students	655,188	686,070
Special Education	<u>314,177</u>	<u>500,188</u>
Total	<u>\$ 11,438,789</u>	<u>\$ 11,793,234</u>

11. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2017 and 2016, the Charter School participated in the following federal award programs:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
National School Lunch and Breakfast Programs	\$ 324,597	\$ 358,986
Childcare Subsidy Program	150,770	144,871
Fresh Fruits and Vegetables Program	31,524	37,116
Individuals with Disabilities Education Act (IDEA)	17,197	8,255
McKinney Vento	-	250
SOAR - Early Childhood	252,925	285,241
SOAR - Increasing Academic Quality	<u>-</u>	<u>6,000</u>
Total	<u>\$ 777,013</u>	<u>\$ 840,719</u>

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The Charter School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding, but rather, provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of State Superintendent of Education (OSSE).

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs and (2) encourage the domestic consumption of nutritious agricultural commodities.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. LEASE COMMITMENTS:

On June 9, 2015, the Charter School and AppleTree Institute (ATI), a related party, entered into a master lease agreement commencing July 1, 2015, and expiring June 30, 2018. Under the master lease agreement, the Charter School is required to pay monthly rent based on the facilities allowance received by the Charter School from the District of Columbia, subject to minimum and maximum monthly amounts based on the per pupil facilities allowance and student enrollment. For the year ended June 30, 2017, rent was determined based on a predetermined fixed enrollment for the Columbia Heights and Oklahoma Avenue facilities and at actual enrollment for the Parklands facility at a rate of \$2,950 per student. In addition, the Charter School incurs the costs of utilities and basic maintenance. For the years ended June 30, 2017 and 2016, rent expense under this lease agreement was \$849,600 for both years.

The Charter School leases certain property from AppleTree Columbia Heights, LLC, an affiliate of ATI. The terms of this transaction are consistent with the terms of the master lease agreement with ATI. Rent was based on a rate of \$2,950 per student. For the years ending June 30, 2017 and 2016, rent expense under this lease was \$354,000 for both years.

In July 2011, the Charter School entered into a lease with ATI for ground rent at its Lincoln Park campus. The term of the lease is 20 years, with an option to extend the lease for 10 years. On June 13, 2012, both parties agreed to an amendment to the sub-lease covering management expenses for the property, effective January 1, 2012. The monthly lease obligation to be paid by the Charter School is \$806 per month.

In July 2014, The Charter School entered into a license to occupy agreement with the District of Columbia to provide a Public Charter School on the premises of Jefferson Middle School. The terms of this agreement were for a one-year term commencing on July 28, 2014, and expiring July 31, 2015. This agreement was extended for a second one-year term expiring July 31, 2017. The monthly required payment at June 30, 2017, was \$1,625. During the years ended June 30, 2017 and 2016, the Charter School had incurred \$19,495 in licensing fees for both years.

In July 2014, the Charter School entered into a sub-lease with ATI for office space at 415 Michigan Ave NE, Washington, DC. The lease commences on July 1, 2014, and expired June 30, 2017. As of June 30, 2017, monthly lease payments were \$6,077. Future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 1,214,897
2019	9,672
2020	9,672
2021	9,672
2022	<u>9,672</u>
Total	<u>\$ 1,253,585</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. LEASE COMMITMENTS: (Continued)

Total rent expense and licensing fees for the years ended June 30, 2017 and 2016, were as follows:

<u>Landlord</u>	<u>Facility</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
ATI	Oklahoma Avenue	\$ 472,000	\$ 472,000
ATI	Parkland	259,600	259,600
ATI	Lofts/Heights of Columbia	118,000	118,000
ATI	Lincoln Park	9,677	9,677
AppleTree Columbia Heights, LLC	Columbia Heights	354,000	354,000
Theological College, Inc.	Michigan Avenue	70,969	65,006
District of Columbia	Jefferson Middle School	<u>19,495</u>	<u>19,495</u>
	Total	<u>\$ 1,303,741</u>	<u>\$ 1,297,778</u>

Photocopier Leases

The Charter School entered into an operating lease for copier equipment. The lease term is for 36 months, with a monthly lease payment of \$227. Equipment rental expense totaled \$2,718 and \$3,518 for the years ending June 30, 2017 and 2016, respectively. Future minimum payments due under this lease is as follows:

<u>Year Ended June 30,</u>	
2018	\$ 2,718
2019	2,718
2020	<u>227</u>
Total	<u>\$ 5,663</u>

13. RELATED PARTY TRANSACTIONS:

AppleTree Institute for Education Innovation, Inc.

The Charter School was designed by AppleTree Institute for Education Innovation, Inc. (ATI), a not for profit organization, whose mission is to increase the number of effective schools through innovation, to provide accelerated early language and literacy programs to underserved preschoolers in Washington, DC and to raise the trajectory of their future learning success. ATI supports the Charter School as a strategic partner, and commits to fund any operating shortfalls of the Charter School. The Charter School and ATI share common board members. The Charter School leases some of its facilities from ATI (Note 12).

Effective July 1, 2015, the Charter School and ATI entered into a services agreement outlining the division of specific administrative and operating costs. During the year ended June 30, 2017, ATI billed \$310,719 of expenses for shared payroll and administrative costs to the Charter School. ATI incurred \$798,153 of expenses for shared payroll and administrative costs provided by the Charter School. As of June 30, 2017 and 2016, the Charter School has a net amount to ATI of \$28,155 and \$95,412, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS: (Continued)

AppleTree Institute for Education Innovation, Inc. (Continued)

During the year ended June 30, 2017, the Charter School paid \$115,200 to ATI for classroom observation and the *Every Child Ready* Curriculum.

The bonds issued by the Charter School in the amount of \$3,535,000 are guaranteed in full by ATI.

Board of Trustees

Two of the trustees appointed to serve on the board of trustees are parents of students attending the Charter School. Parent trustees are elected by a majority vote of the board members from a list of qualified individuals submitted to the board by an advisory committee.

14. CONTINGENCIES:

The Charter School was granted its charter by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. The Charter School has no reason to believe that this relationship will be discontinued in the foreseeable future. However, any interruption of this relationship (i.e. the failure to continue the charter authorization or withholding funds) could adversely affect the School's ability to finance ongoing operations.

The Charter School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the Charter School. While the Charter School's board of trustees and management believes the Charter School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

The Charter School receives funding from various federal and state grant reimbursement programs, which are governed by various rules and regulations of the respective grantor agencies. To the extent that the Charter School has not complied with the rules and regulations governing the grants, refunds of any money received may be required. The Charter School believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The viability of public charter schools and funding for these schools is dependent upon the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operations of public charter schools.

15. ADVERTISING:

Advertising was conducted for the purpose of promoting open enrollment and student recruiting to the school. Advertising costs are expensed when incurred. Direct advertising expenses were \$30,485 and \$29,686 for the years ended June 30, 2017 and 2016, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. RETIREMENT PLAN:

The Charter School provides pension benefits for its employees through a qualified defined contribution 403(b) retirement plan administered by a third party. In a defined contributions plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Provisions of the plan allow for employees to contribute up to the statutory limits set by the Internal Revenue Code. Plan provisions and contribution requirements are established and may be amended by the board members of the Charter School. There is no unfunded past service liability. The Charter School contributes, at its discretion, an amount equal to 5% of eligible compensation for employees with more than two years of service. Employer contributions for the years ended June 30, 2017 and 2016 totaled \$138,254 and \$132,614, respectively.

17. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 11, 2017, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

Enrollment

Enrollment for the 2017/2018 school year is approximately six hundred forty-three (643) students, as compared to six hundred thirty-one (631) students during the 2016/2017 school year.

Additional Funding - Washington Teacher's Union Contract

On October 1, 2017, the City Council approved the Washington Teacher's Union Contract. This contract will result in additional funds to both DC Public Schools and DC Public Charter Schools through an increase in the Uniform per Student Funding Formula. These additional funds result in a 5.9% increase above the original per pupil funding amounts. The Charter School will receive an additional one-time payment during the year ended June 30, 2018, to reflect the increase to the 2017 fiscal year per pupil funding base rate. The amount paid to the Charter School will be calculated based on the final enrollment audit count, supplemental payments and extended school year funding for the year ended June 30, 2017. The 2017 fiscal year base rate will increase by an amount of \$203 over the original base rate of \$9,682 to a revised base rate of \$9,885.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	June 30, 2017				June 30, 2016			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Leadership Salaries	\$ 1,040,208	\$ 1,040,208	\$ -	\$ -	\$ 988,576	\$ 988,576	\$ -	\$ -
Teaching Staff Salaries	4,984,167	4,984,167	-	-	4,608,330	4,608,330	-	-
Student and Family Support Salaries	326,677	326,677	-	-	539,238	539,238	-	-
Business and Operations Salaries	503,670	-	503,670	-	342,819	-	342,819	-
Shared Administrative Support	445,581	-	445,581	-	303,148	-	303,148	-
Leased Employees, Net	(487,434)	-	(487,434)	-	217,504	204,759	12,745	-
Contracted Services	1,641	1,641	-	-	54,995	53,794	1,201	-
Employee Benefits	1,126,897	973,504	153,393	-	966,137	874,117	92,020	-
Payroll Taxes	626,128	544,713	81,415	-	596,855	540,007	56,848	-
Staff Development	198,079	198,079	-	-	244,017	244,017	-	-
Other Staff-Related Expense	<u>98,304</u>	<u>85,521</u>	<u>12,783</u>	<u>-</u>	<u>116,822</u>	<u>85,644</u>	<u>31,178</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 8,863,918</u>	<u>\$ 8,154,510</u>	<u>\$ 709,408</u>	<u>\$ -</u>	<u>\$ 8,978,441</u>	<u>\$ 8,138,482</u>	<u>\$ 839,959</u>	<u>\$ -</u>
<u>Direct Student Costs:</u>								
Textbooks and Assessment Materials	\$ 19,687	\$ 19,687	\$ -	\$ -	\$ 23,717	\$ 23,717	\$ -	\$ -
Food Service	455,877	455,877	-	-	516,145	516,145	-	-
Student Supplies and Materials	68,839	68,839	-	-	71,618	71,618	-	-
Contracted Instruction Fees	120,200	120,200	-	-	92,035	92,035	-	-
Special Education Contracted Services	56,834	56,834	-	-	79,709	79,709	-	-
Field Trips	33,924	33,924	-	-	76,319	76,319	-	-
Other Student Costs	<u>86,863</u>	<u>86,863</u>	<u>-</u>	<u>-</u>	<u>94,777</u>	<u>94,777</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 842,224</u>	<u>\$ 842,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 954,320</u>	<u>\$ 954,320</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,346,621	\$ 1,256,652	\$ 89,969	\$ -	\$ 1,300,378	\$ 1,257,532	\$ 42,846	\$ -
Real Estate Taxes	-	-	-	-	11,117	11,117	-	-
Contracted Building Services	164,426	164,426	-	-	164,006	164,006	-	-
Utilities	164,644	164,644	-	-	161,644	161,644	-	-
Maintenance and Improvements	138,705	137,078	1,627	-	120,314	88,533	31,781	-
Depreciation	<u>328,220</u>	<u>328,220</u>	<u>-</u>	<u>-</u>	<u>327,736</u>	<u>327,736</u>	<u>-</u>	<u>-</u>
Total Occupancy Costs	<u>\$ 2,142,616</u>	<u>\$ 2,051,020</u>	<u>\$ 91,596</u>	<u>\$ -</u>	<u>\$ 2,085,195</u>	<u>\$ 2,010,568</u>	<u>\$ 74,627</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>June 30, 2017</u>				<u>June 30, 2016</u>			
	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Educational Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Office Expenses:</u>								
Equipment Maintenance	\$ 42,927	\$ 39,713	\$ 3,214	\$ -	\$ 48,535	\$ 44,345	\$ 4,190	\$ -
Office Supplies	145,128	115,727	29,401	-	138,422	96,245	42,177	-
Postage and Shipping	639	86	553	-	348	195	153	-
Professional Services	235,078	-	235,078	-	215,422	-	215,422	-
Office Printing and Copying	942	78	864	-	5,072	-	5,072	-
Telecommunications	71,644	27,246	44,398	-	39,044	16,565	22,479	-
Amortization Bond Issuance Cost	19,369	19,369	-	-	19,369	19,369	-	-
Bank Service Charges	<u>4,075</u>	<u>-</u>	<u>4,075</u>	<u>-</u>	<u>7,778</u>	<u>-</u>	<u>7,778</u>	<u>-</u>
Total Office Expenses	<u>\$ 519,802</u>	<u>\$ 202,219</u>	<u>\$ 317,583</u>	<u>\$ -</u>	<u>\$ 473,990</u>	<u>\$ 176,719</u>	<u>\$ 297,271</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Authorizer Fees	\$ 124,149	\$ 105,527	\$ 18,622	\$ -	\$ 138,112	\$ 117,395	\$ 20,717	\$ -
Insurance	44,050	-	44,050	-	47,637	-	47,637	-
Depreciation	94,450	94,450	-	-	127,816	127,816	-	-
Other General Expenses	<u>47,840</u>	<u>48,117</u>	<u>(277)</u>	<u>-</u>	<u>29,983</u>	<u>20,085</u>	<u>9,898</u>	<u>-</u>
Total General Expenses	<u>\$ 310,489</u>	<u>\$ 248,094</u>	<u>\$ 62,395</u>	<u>\$ -</u>	<u>\$ 343,548</u>	<u>\$ 265,296</u>	<u>\$ 78,252</u>	<u>\$ -</u>
Total Functional Expenses	<u>\$ 12,679,049</u>	<u>\$ 11,498,067</u>	<u>\$ 1,180,982</u>	<u>\$ -</u>	<u>\$ 12,835,494</u>	<u>\$ 11,545,385</u>	<u>\$ 1,290,109</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF AVERAGE COST PER STUDENT
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

June 30, 2017

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 9,447,047	\$ 14,972
Occupancy Cost	2,142,616	3,396
General and Administrative	1,089,386	1,726
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 12,679,049</u>	<u>\$ 20,094</u>

The above is the average per student cost for the year ended June 30, 2017, and is based on a full time equivalent (FTE) enrollment of 631 students.

June 30, 2016

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 9,534,817	\$ 14,602
Occupancy Cost	2,085,195	3,193
General and Administrative	1,215,482	1,861
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 12,835,494</u>	<u>\$ 19,656</u>

The above is the average per student cost for the year ended June 30, 2016, and is based on a full time equivalent (FTE) enrollment of 653 students.

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>Period of Award</u>	<u>Grant Receivable at 7/1/16</u>	<u>Refundable Advance at 7/1/16</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/17</u>	<u>Refundable Advance at 6/30/17</u>
							<u>Receipts</u>	<u>Disbursements Expenditures</u>		
<u>U.S. Department of Education:</u>										
Passed Through the District of Columbia:										
DC School Choice Incentive Program - Early Childhood	84.370A	U370C150002	\$ 276,424	08/12/16 to 08/12/17	\$ -	\$ -	\$ 164,156	\$ 244,199	\$ 80,043	\$ -
DC School Choice Incentive Program - Early Childhood	84.370A	U370C140001	\$ 285,241	07/02/15 to 07/10/16	113,644	-	113,644	-	-	-
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	62027A	\$ 13,174	07/01/16 to 09/30/17	-	-	13,174	13,174	-	-
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	62173A	\$ 4,023	07/01/16 to 09/30/17	-	-	4,023	4,023	-	-
Passed Through the Flamboyant Foundation:										
DC School Choice Incentive Program - Academic Quality	84.370C	N/A	\$ 32,715	07/27/15 to 07/27/17	-	-	8,726	8,726	-	-
Total U.S. Department of Education					\$ 113,644	\$ -	\$ 303,723	\$ 270,122	\$ 80,043	\$ -
<u>U.S. Department of Agriculture:</u>										
Passed Through the District of Columbia:										
Fresh Fruits and Vegetables	10.582	N/A	N/A	07/01/16 to 06/30/17	\$ -	\$ -	\$ 30,303	\$ 31,524	\$ 1,221	\$ -
Fresh Fruits and Vegetables	10.582	N/A	N/A	07/01/15 to 06/30/16	6,661	-	6,661	-	-	-
National School Lunch Program	10.555	N/A	N/A	07/01/16 to 06/30/17	-	-	193,171	229,241	36,070	-
National School Lunch Program	10.555	N/A	N/A	07/01/15 to 06/30/16	39,836	-	39,836	-	-	-
School Breakfast Program	10.553	N/A	N/A	07/01/16 to 06/30/17	-	-	61,686	72,726	11,040	-
School Breakfast Program	10.553	N/A	N/A	07/01/15 to 06/30/16	12,477	-	12,477	-	-	-
Donated Commodities	10.555	N/A	N/A	07/01/16 to 06/30/17	-	-	22,630	22,630	-	-
Total U.S. Department of Agriculture					\$ 58,974	\$ -	\$ 366,764	\$ 356,121	\$ 48,331	\$ -
<u>U.S. Department of Health and Human Services:</u>										
Passed Through the District of Columbia:										
Child Care and Development Fund	93.575	N/A	\$ 69,907	07/01/16 to 06/30/17	\$ -	\$ -	\$ 63,441	\$ 68,996	\$ 5,555	\$ -
Child Care and Development Fund	93.575	N/A	N/A	07/01/15 to 06/30/16	3,086	-	3,086	-	-	-
Temporary Assistance for Needy Families	93.558	N/A	\$ 82,853	07/01/16 to 06/30/17	-	-	72,555	81,774	9,219	-
Temporary Assistance for Needy Families	93.558	N/A	N/A	07/01/15 to 06/30/16	9,052	-	9,052	-	-	-
Total U.S. Department of Health and Human Services					\$ 12,138	\$ -	\$ 148,134	\$ 150,770	\$ 14,774	\$ -
Total Federal Awards					\$ 184,756	\$ -	\$ 818,621	\$ 777,013	\$ 143,148	\$ -

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program - SOAR	84.370C	\$ 252,925
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	13,174
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	4,023
Fresh Fruits and Vegetables	10.582	31,524
National School Lunch Program	10.555	229,241
Donated Commodities	10.555	22,630
School Breakfast Program	10.553	72,726
Child Care and Development Fund	93.575	68,996
Temporary Assistance for Needy Families	93.558	<u>81,774</u>
Total Federal Awards		<u>\$ 777,013</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Charter School under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Charter School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Charter School.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Charter School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Major Program Selection:

The major Federal Award Program selected for testing is as follows:

U.S. Department of Education

- DC School Choice Incentive Program - SOAR

The requirements of the Office of Management and Budget Uniform Guidance prescribe that all major programs as determined by the auditor on a risk-based approach and/or at least 40% (20% for low risk auditees) of all federal awards be subject to specific control and compliance testing. For the AppleTree Early Learning Public Charter School, the program subject to these requirements is as listed above. The total expenditures of this program represents 32.55% of the total federal expenditures.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Note 3 - Major Program Selection: (Continued)

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program - SOAR	84.370C	\$ 252,925*
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	13,174
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	4,023
Fresh Fruits and Vegetables	10.582	31,524
National School Lunch Program	10.555	229,241
Donated Commodities	10.555	22,630
School Breakfast Program	10.553	72,726
Child Care and Development Fund	93.575	68,996
Temporary Assistance for Needy Families	93.558	<u>81,774</u>
Total Federal Awards		<u>\$ 777,013</u>

* Denotes Major Program

Note 4 - Major Program Disclosure:

I. U.S. Department of Education

1) DC School Choice Incentive Program - SOAR

To provide low-income parents residing in the District of Columbia (District) with expanded options for the education of their children.

This program is part of a broader school improvement effort in the District that is founded on the belief that all education sectors (public schools, public charter schools, and nonpublic schools) can offer quality education experiences for the District's students, and that those students who are the most economically disadvantaged have the least access to such experiences.

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Trustees
AppleTree Early Learning
Public Charter School
415 Michigan Ave, NE
Washington, DC 20017

INDEPENDENT AUDITOR'S 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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of AppleTree Early Learning Public Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered AppleTree Early Learning Public Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of AppleTree Early Learning Public Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AppleTree Early Learning Public Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
October 11, 2017

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Trustees
AppleTree Early Learning
Public Charter School
415 Michigan Ave, NE
Washington, DC 20017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the AppleTree Early Learning Public Charter School's (a nonprofit organization) compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on each of AppleTree Early Learning Public Charter School's major federal programs for the year ended June 30, 2017. The AppleTree Early Learning Public Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and in the notes to the schedule of expenditures of federal awards.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the AppleTree Early Learning Public Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 AppleTree Early Learning Public Charter 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the AppleTree Early Learning Public Charter School's compliance.

Opinion on Each Major Federal Award Program

In our opinion, the AppleTree Early Learning Public Charter School, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the AppleTree Early Learning Public Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the AppleTree Early Learning Public Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the AppleTree Early Learning Public Charter School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
October 11, 2017

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings reported in the prior year.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of the AppleTree Early Learning Public Charter School were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. 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.
- d. No significant deficiencies relating to the audit of the major federal award program have been reported.
- e. The Auditor's report on compliance for the major federal award program for the AppleTree Early Learning Public Charter School expresses an unmodified opinion.
- f. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516 (a) of the Uniform Guidance in the schedule of findings and questioned costs.
- g. The major program of the AppleTree Early Learning Public Charter School was as follows:

<u>Program</u>	<u>CFDA #</u>
DC School Choice Incentive Program - SOAR Act	84.370C

- h. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
- i. The AppleTree Early Learning Public Charter School qualified as a low-risk auditee.

II. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

There were no findings in the current year.

III. Findings relating to federal awards, which are required to be reported in accordance with the Uniform Guidance

There were no findings in the current year.