

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

KENDALL, PREBOLA AND JONES

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
AppleTree Early Learning
Public Charter School
1801 Mississippi Avenue, SE
Washington, DC 20020

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, 2018 and 2017, 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, 2018 and 2017, 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* 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 September 28, 2018, 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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
September 28, 2018

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 5,347,247	\$ 4,239,590
Accounts Receivable	84,100	181,733
Grants Receivable	186,924	159,777
Promises Receivable	4,500	-
Due From/(To) Related Parties, Net	72,425	(28,155)
Prepaid Expenses	<u>127,547</u>	<u>34,241</u>
Total Current Assets	<u>\$ 5,822,743</u>	<u>\$ 4,587,186</u>
<u>Fixed Assets:</u>		
Land	\$ 184,418	\$ 184,418
Furniture and Equipment	962,126	858,727
Leasehold Improvements	5,034,239	5,026,764
Less: Accumulated Depreciation and Amortization	<u>(2,569,418)</u>	<u>(2,228,659)</u>
Total Fixed Assets	<u>\$ 3,611,365</u>	<u>\$ 3,841,250</u>
<u>Other Assets:</u>		
Restricted Cash, Held in Trust	\$ 1,433,452	\$ 1,227,172
Deposits	<u>50,000</u>	<u>50,000</u>
Total Other Assets	<u>\$ 1,483,452</u>	<u>\$ 1,277,172</u>
TOTAL ASSETS	<u>\$ 10,917,560</u>	<u>\$ 9,705,608</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 267,267	\$ 117,937
Income Taxes Payable	2,017	-
Payroll and Related Liabilities	746,477	612,904
Deferred Revenues	290	23,294
Grant Payable	<u>100,000</u>	<u>-</u>
Total Current Liabilities	<u>\$ 1,116,051</u>	<u>\$ 754,135</u>
<u>Long-Term Liabilities:</u>		
Bonds Payable	<u>\$ 3,354,221</u>	<u>\$ 3,334,852</u>
Total Long-Term Liabilities	<u>\$ 3,354,221</u>	<u>\$ 3,334,852</u>
Total Liabilities	<u>\$ 4,470,272</u>	<u>\$ 4,088,987</u>
<u>Net Assets:</u>		
Unrestricted	\$ 6,447,288	\$ 5,614,121
Temporarily Restricted	<u>-</u>	<u>2,500</u>
Total Net Assets	<u>\$ 6,447,288</u>	<u>\$ 5,616,621</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,917,560</u>	<u>\$ 9,705,608</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues and Other Support:</u>						
Tuition - Per Pupil Funding Allocation	\$ 10,457,998	\$ -	\$ 10,457,998	\$ 9,467,545	\$ -	\$ 9,467,545
Tuition - Facilities Allowance	2,084,851	-	2,084,851	1,971,244	-	1,971,244
Federal Entitlements and Grants	945,438	-	945,438	777,013	-	777,013
State Government Grants	197,971	-	197,971	132,331	-	132,331
Local Sourced Funding	45,691	227,388	273,079	330	3,607	3,937
Service Fees	252,684	-	252,684	274,457	-	274,457
Student Activity Fees and Other	282,047	-	282,047	318,174	-	318,174
Interest and Dividends	32,901	-	32,901	25,520	-	25,520
Donated Services and Materials	4,356	-	4,356	-	-	-
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	229,888	(229,888)	-	1,107	(1,107)	-
Total Revenues and Other Support	\$ 14,533,825	\$ (2,500)	\$ 14,531,325	\$ 12,967,721	\$ 2,500	\$ 12,970,221
<u>Expenses:</u>						
Educational Services	\$ 12,403,579	\$ -	\$ 12,403,579	\$ 11,498,067	\$ -	\$ 11,498,067
General and Administrative	1,297,079	-	1,297,079	1,180,982	-	1,180,982
Fundraising	-	-	-	-	-	-
Total Expenses	\$ 13,700,658	\$ -	\$ 13,700,658	\$ 12,679,049	\$ -	\$ 12,679,049
Changes in Net Assets	\$ 833,167	\$ (2,500)	\$ 830,667	\$ 288,672	\$ 2,500	\$ 291,172
Net Assets, Beginning of Year	5,614,121	2,500	5,616,621	5,325,449	-	5,325,449
Net Assets, End of Year	\$ 6,447,288	\$ -	\$ 6,447,288	\$ 5,614,121	\$ 2,500	\$ 5,616,621

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 830,667	\$ 291,172
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	341,709	422,670
Amortization - Bond Issuance Costs	19,369	19,369
Accounts Receivable - (Increase)/Decrease	97,633	95,218
Grants Receivable - (Increase)/Decrease	(27,147)	38,283
Promises Receivable - (Increase)/Decrease	(4,500)	-
Due From/(To) Related Parties, Net - (Increase)/Decrease	(100,580)	(67,257)
Prepaid Expenses - (Increase)/Decrease	(93,306)	25,889
Deposits - (Increase)/Decrease	-	4,741
Accounts Payable and Accrued Expenses - Increase/(Decrease)	149,330	(80,825)
Income Taxes Payable - Increase/(Decrease)	2,017	-
Payroll and Related Liabilities - Increase/(Decrease)	133,573	(6,077)
Deferred Revenue - Increase/(Decrease)	(23,004)	-
Grant Payable - Increase/(Decrease)	<u>100,000</u>	<u>19,231</u>
Net Cash Flows from Operating Activities	<u>\$ 1,425,761</u>	<u>\$ 762,414</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Fixed Assets	<u>\$ (111,824)</u>	<u>\$ (26,751)</u>
Net Cash Flows from Investing Activities	<u>\$ (111,824)</u>	<u>\$ (26,751)</u>
<u>Cash Flows from Financing Activities:</u>		
Transfers to Restricted Cash Held in Trust	<u>\$ (206,280)</u>	<u>\$ (219,792)</u>
Net Cash Flows from Financing Activities	<u>\$ (206,280)</u>	<u>\$ (219,792)</u>
Net Increase in Cash and Cash Equivalents	\$ 1,107,657	\$ 515,871
Cash and Cash Equivalents at Beginning of Year	<u>4,239,590</u>	<u>3,723,719</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,347,247</u>	<u>\$ 4,239,590</u>

Supplemental Disclosures:

- a) No income taxes were paid during the years ended June 30, 2018 and 2017.
- b) No interest was paid during the years ended June 30, 2018 and 2017.

(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 654 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. The Charter School also receives federal entitlement funding through the Office of the State Superintendent of Education.

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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

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.

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. An allowance for uncollectible contributions receivable is based upon management's judgment, including such factors as prior collection history and type of contribution.

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. 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 to the Charter School qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). Under IRC Section 512(a)(7), certain transportation benefits are subject to unrelated business income tax. As of June 30, 2018, the Charter School recognized \$1,412 of income tax expense related to the filing of the 2018 990-T tax return. In addition, \$605 of income tax expense due to the District of Columbia has been reflected in the financial statements related to income tax on transportation benefits.

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

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(d) Grants:

Foundation Grants

Grant revenues from foundations are recognized as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions between the applicable classes of net assets.

Government Grants

The Charter School receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Receivables related to grant awards are recorded to the extent unreimbursed expenses have been incurred for the purposes specified by an approved grant award. Funds received in advance for these types of grants and those that are unexpended as of year-end are reflected as a deferred revenue.

(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

Unrestricted net assets are defined as net assets that are not subject to donor-imposed restrictions and over which the Board of Directors 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

Temporarily restricted net assets are defined as 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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets (Continued)

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Family Engagement Workshop	\$ -	\$ 2,500
Total	<u>\$ -</u>	<u>\$ 2,500</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, the passage of time, or by occurrence of other events specified by donors for the following activities:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
New Site Development Program	\$ 225,000	\$ -
Family Engagement Workshop	2,500	-
Academic Partnering	<u>2,388</u>	<u>1,107</u>
Total Released from Restrictions	<u>\$ 229,888</u>	<u>\$ 1,107</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as 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, 2018 and 2017.

(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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(f) Donated Services, Materials and Facilities: (Continued)

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Legal Consulting	\$ 4,356	\$ -
Total	<u>\$ 4,356</u>	<u>\$ -</u>

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 Directors 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.

(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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(k) Reclassifications:

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, 2018, 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, 2018, the statute of limitations for tax years 2014 through 2016 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, 2018, 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, 2018</u>	<u>June 30, 2017</u>
Demand Deposits	\$ 4,061,887	\$ 2,993,713
Non-Interest Bearing Checking Accounts	1,211,367	1,101,511
Cash-Pending Deposit	73,993	9,301
Checks on Hand	<u>-</u>	<u>135,065</u>
Total	<u>\$ 5,347,247</u>	<u>\$ 4,239,590</u>

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 is insured up to \$250,000.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS: (Continued)

As of June 30, 2018 and 2017, \$890,193 and \$758,484, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increase cash flows at certain times during the year, the amount of funds at risk may have been greater than at year-end. 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.

Restricted Cash - Held in Trust

Under the terms of a bond issuance agreement, the Charter School is required to maintain cash balances restricted for bond retirement within a sinking fund. The cash held by the trustee is separately reported in the accompanying statements of financial position as an Other Asset. At June 30, 2018 and 2017, \$1,433,452 and \$1,227,172 in cash, respectively, was restricted for this purpose.

5. ACCOUNTS AND GRANTS RECEIVABLE:

Accounts and grants receivable balances as of June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable</u> :		
Per Pupil Funding	\$ 30,529	\$ 42,644
Reimbursable Expenses - Property Taxes	-	81,557
E-Rate Program	17,145	1,471
Every Child Ready - Service Fees	12,982	47,775
Medicaid - School Based Services	184	1,836
Reimbursable Expenses - Other	<u>23,260</u>	<u>6,450</u>
Total Accounts Receivable	<u>\$ 84,100</u>	<u>\$ 181,733</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS AND GRANTS RECEIVABLE: (Continued)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Grants Receivable:</u>		
DC School Choice Incentive Program - SOAR	\$ 110,370	\$ 80,043
National Food Programs	54,259	48,331
Elementary and Secondary Education	10,674	-
Early Care and Education Assistance	9,147	28,811
Healthy Schools Act	<u>2,474</u>	<u>2,592</u>
 Total Grants Receivable	 <u>\$ 186,924</u>	 <u>\$ 159,777</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from public funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for the amounts owed to the Charter School throughout the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable.

Trade receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectible once management determines that available collection efforts have been exhausted.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give. Promises receivable at year end consisted of:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Stronger D.C. Community	\$ 4,500	\$ -
 Total Promises Receivable	 <u>\$ 4,500</u>	 <u>\$ -</u>

The above promises receivable is due to be received in less than one year.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS:

Furniture and equipment, and leasehold improvements are recorded at cost or in the case of contributed property at the fair market value at the date of the contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated or amortized over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is reflected in revenues for the period. Depreciation and amortization have been provided on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to expenses as incurred.

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

June 30, 2018

	<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	561,860	(469,690)	92,170
Computer Equipment	3 Years	400,266	(360,114)	40,152
Leasehold Improvements	45 Months	<u>5,034,239</u>	<u>(1,739,614)</u>	<u>3,294,625</u>
Total		<u>\$ 6,180,783</u>	<u>\$ (2,569,418)</u>	<u>\$ 3,611,365</u>

June 30, 2017

	<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>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017, was \$341,709 and \$422,670, respectively.

The federal or state government retains a reversionary interest in equipment funded by federal or state monies, respectively, for individual items greater than \$5,000. Sale, trade-in or other disposition of such equipment generally requires notification of the appropriate federal or state authorities.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

7. GRANT PAYABLE:

A donation was made by the AppleTree Early Learning Public Charter School to Eager to Read, a separately incorporated 501(c)(3) charitable organization, for the purpose of funding the tuition scholarship program for employees of either the Charter School or AppleTree Institute for Education Innovation, Inc. Through its board member relationship, ATI maintains a controlling interest in Eager to Read. As of June 30, 2018, a grant payment in the amount of \$100,000 was approved to be made from the Charter School to Eager to Read.

8. QUALIFIED SCHOOL CONSTRUCTION BONDS PAYABLE:

On November 23, 2010, the District of Columbia issued and sold qualified school construction revenue bonds (QSCB per Code Section 54F(a)(3) of the Internal Revenue Code), AppleTree Early Learning Public Charter School Issue, (Taxable-Tax Credit Bonds) Series 2010, with no effective interest rate. The bond issue and face amount were both for a total of \$3,535,000 and a term of seventeen (17) years with maturity on December 1, 2027, and were sold to the Manufacturers and Traders Trust Company, the proceeds of which were loaned to the Charter School by the District of Columbia government pursuant to section 490 of the District of Columbia Home Rule Act. The bond proceeds were used to finance building improvements and related capital expenditures at 138 12th Street NE, Washington, DC (Lincoln Park), and at 2015-2017 Savannah Terrace SE, Washington, DC (Douglas Knoll), as well as to pay for certain bond issuance costs.

The interest rate on the bonds was determined by taking the sum of the purchasers (M & T Bank) five-year cost of funds rate, plus 3.50%, less the Tax Credit Rate of 5.37%, resulting in a zero (0%) interest rate to the Charter School. The bonds have three scheduled call dates of December 1, 2015, 2020, and 2025.

Commencing on December 1, 2010, the Charter School was required to deposit to a sinking fund, equal monthly installments in the amount of \$18,316 over the term of the bonds sufficient to pay the principal at bond maturity. The sinking fund deposits are invested in a money market account with M & T Bank with a maximum sinking fund yield of 3.86%.

The bond obligation is guaranteed by the AppleTree Early Learning Public Charter School through a first priority lien on its per-pupil facilities revenues, as well as an interest in all personal property and business assets at the two campuses for whom the bonds are being issued. The loan agreement contains certain restricted, financial and nonfinancial covenants.

The bond obligation is also guaranteed by the AppleTree Institute for Education Innovation through a senior deed of trust, assignment and security agreement relating to the tract of land together with improvements located at 138 12th Street NE Washington, DC. The Institute is required to meet certain debt service coverage ratios as measured on an annual basis.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. QUALIFIED SCHOOL CONSTRUCTION BONDS PAYABLE: (Continued)

The sinking fund payments on the revenue bonds over the next five years and thereafter are as follows:

<u>Year Ended June 30,</u>	
2019	\$ 219,792
2020	219,792
2021	219,792
2022	219,792
2023	219,792
Thereafter	<u>989,076</u>
Totals	<u>\$ 2,088,036</u>

Bond 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). The Charter School adopted the requirements of FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the related debt. 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, 2018 and 2017.

Bond issuance costs and accumulated amortization is as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total Bond Issuance Costs	\$ 329,276	\$ 329,276
Less: Accumulated Amortization	<u>(148,497)</u>	<u>(129,128)</u>
Bond Issuance Costs, Net	<u>\$ 180,779</u>	<u>\$ 200,148</u>
Bonds Payable	\$ 3,535,000	\$ 3,535,000
Less: Bond Issuance Costs, Net	<u>(180,779)</u>	<u>(200,148)</u>
Carrying Amount of Bonds Payable	<u>\$ 3,354,221</u>	<u>\$ 3,334,852</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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT: (Continued)

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. On January 26, 2015, 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, 2018 and 2017, the Charter School incurred \$132,979 and \$124,149, 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, 2018, was 833 students. Actual enrollment for the 2017/2018 year was 654 students, which includes one out-of-state student.

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, 2018, the per pupil rate ranged from \$13,334 to \$13,744 for the educational allotment and \$3,193 for the facility allotment. 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. Additional allotments were given for Special Education needs and At Risk Students. Per-pupil funding for the years ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
General Education	\$ 8,846,663	\$ 8,104,413
Facilities Allowance	2,084,851	1,971,244
At Risk Students	725,546	655,188
English as a Second Language	366,891	393,767
Special Education	320,382	314,177
Teachers' Collective Bargaining	<u>198,516</u>	<u>-</u>
Total	<u>\$ 12,542,849</u>	<u>\$ 11,438,789</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

11. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, the Charter School participated in the following federal award programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
DC School Choice Incentive Program - SOAR	\$ 414,073	\$ 252,925
National School Lunch and Breakfast Programs	348,893	324,597
Childcare Subsidy Program	107,900	150,770
Elementary and Secondary Education Act	39,948	-
Fresh Fruits and Vegetables Program	25,794	31,524
Individuals with Disabilities Education Act (IDEA)	<u>8,830</u>	<u>17,197</u>
Total	<u>\$ 945,438</u>	<u>\$ 777,013</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.

12. COMMITMENTS:

Facility Leases

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. The provisions of this lease permit one additional three-year automatic renewal, which was exercised through June 30, 2021 (not including the Columbia Heights facility). 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, 2018, 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, 2018 and 2017, rent expense under this lease agreement was \$877,365 and \$849,600, respectively.

The Charter School pays monthly condominium fees for the facility located in Columbia Heights. Total fees paid during the years ended June 30, 2018 and 2017 were \$24,347 and \$23,880, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Facility Leases (Continued)

On April 1, 2018, the Charter School entered into a sublease agreement with the AppleTree Institute for the rental of its portion of facility space located at 1801 Mississippi Avenue, SE, Washington, DC (THEARC). The AppleTree Institute leases from Building Bridges, who is the prime landlord. The sublease became effective on November 1, 2017, and continued through June 30, 2018. Under the provisions of the lease, the Charter School had the option to renew the lease agreement for a one-year additional term through June 30, 2019. This lease was automatically renewed for an additional twelve-month period. Total monthly required payments under this sublease are \$16,692. Total rent expense for the office space usage during the year ended June 30, 2018, was \$125,744.

In addition to the facility rental agreement, the Charter School is leasing office furniture and equipment located at THEARC directly from the AppleTree Institute. Monthly required rental payments are \$2,000. The terms on the office furniture follow the same terms as included in the facility sublease agreement.

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 \$3,015 and \$2,950 per student for the years ended June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, rent expense under this lease was \$367,830 and \$354,000, respectively.

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. Rent expense for the years ended June 30, 2018 and 2017 was \$9,677.

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 third one-year term expiring July 31, 2018. The monthly required payment at June 30, 2018, was \$1,625. During the years ended June 30, 2018 and 2017, 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 commenced on July 1, 2014, and terminated on January 15, 2018. Rent expense for the year ended June 30, 2018, was \$39,806.

Future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	
2019	\$ 9,677
2020	9,677
2021	9,677
2022	9,677
2023	<u>9,677</u>
Total	<u>\$ 48,385</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Facility Leases (Continued)

Total rent expense and licensing fees for the years ended June 30, 2018 and 2017, were as follows:

<u>Landlord</u>	<u>Facility</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ATI	Oklahoma Avenue	\$ 482,400	\$ 472,000
ATI	Parkland	274,365	259,600
ATI	Lofts/Heights of Columbia	120,600	118,000
ATI	Lincoln Park	9,677	9,677
Building Bridges (ATI Sublease)	THEARC	125,744	-
AppleTree Columbia Heights, LLC	Columbia Heights	367,830	354,000
Theological College, Inc.	Michigan Avenue	39,806	70,958
District of Columbia	Jefferson Middle School	19,495	19,495
City Lights Realty Group	Columbia Heights Condo Fees	<u>24,347</u>	<u>23,880</u>
Subtotal Paid		\$ 1,464,264	\$ 1,327,610
Less: Sublease Reimbursements		<u>(48,238)</u>	<u>-</u>
Total Rent Expense		<u>\$ 1,416,026</u>	<u>\$ 1,327,610</u>

Photocopier Leases

The Charter School entered into multiple operating leases for copier equipment. The lease terms are for thirty-six (36) months with varying monthly lease payments, as well as varying commencement dates. Equipment rental expense totaled \$13,539 and \$9,795 for the years ended June 30, 2018 and 2017, respectively. Future minimum payments due under such leases are as follows:

<u>Year Ended June 30,</u>	
2019	\$ 11,823
2020	<u>3,601</u>
Total	<u>\$ 15,424</u>

Unsecured Credit Card

The Charter School utilizes a credit card issued by Wells Fargo Bank for purchases related specifically to the Charter School. The credit card is issued in the name of the Charter School and has an overall credit limit of \$100,000, as well as individual credit limits for each of the employees authorized as a card holder. Purchases and balances owed on this credit card are not guaranteed by the Charter School.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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, 2018, ATI billed \$385,071 of expenses for shared payroll and administrative costs to the Charter School. ATI incurred \$984,447 of expenses for shared payroll and administrative costs provided by the Charter School. 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, 2018, ATI owes the Charter School an amount of \$102,593. As of June 30, 2017, the Charter School has a net amount due to ATI of \$28,155.

During the years ended June 30, 2018 and 2017, the Charter School paid \$115,200 to ATI for classroom observation and the *Every Child Ready* Curriculum. In addition, ATI provided a contribution to the Charter School in the amount of \$225,000 for the purpose of developing an innovative and impactful teacher residency program in service for local districts.

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

Board of Directors

Two of the members appointed to serve on the Board of Directors are parents of students attending the Charter School. Parent members 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. CONCENTRATIONS:

The Charter School is dependent on funding from the District of Columbia Public School System, as authorized by the District of Columbia Public Charter School Board. During the years ended June 30, 2018 and 2017, eighty-six percent (86%) and eighty-eight percent (88%), respectively, of total support, excluding donated services and facilities, was received from the District of Columbia for per pupil funding.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

15. 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 Charter 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 Directors 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.

16. 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 \$19,171 and \$30,485 for the years ended June 30, 2018 and 2017, respectively.

17. 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, 2018 and 2017 totaled \$233,439 and \$138,254, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

18. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 28, 2018, 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.

Purchase of School Facility

On July 18, 2018, the Charter School purchased the real estate and leasehold improvements located on 2750 14th Street, NW, Washington, DC, as an early education school. The real estate was purchased from AppleTree Columbia Heights, LLC, and the leasehold improvements were purchased from the AppleTree Institute for Education Innovation (a sole member of the LLC) for a combined total of \$6,135,552. The purchase of the facility will be from a combination of both cash and a promissory note to ATI in the amount of \$2,656,052. The promissory note will be payable over six years (72 months) at a fixed interest rate of 5%. In addition, certain selling expenses such as title insurance and legal fees will be shared equally between the Charter School and ATI.

There is currently an operating rental lease agreement between the Charter School and AppleTree Columbia Heights, LLC, representing annual lease rental payments during the year ended June 30, 2018, in the total amount of \$367,830. This lease was terminated on July 18, 2018, the date of the real-estate closing.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</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>Personnel, Salaries and Benefits:</u>								
Leadership Salaries	\$ 1,110,895	\$ 1,110,895	\$ -	\$ -	\$ 1,040,208	\$ 1,040,208	\$ -	\$ -
Teaching Staff Salaries	5,255,517	5,255,517	-	-	4,984,167	4,984,167	-	-
Student and Family Support Salaries	567,597	567,597	-	-	326,677	326,677	-	-
Business and Operations Salaries	1,059,148	-	1,059,148	-	503,670	-	503,670	-
Shared Administrative Support	(712,912)	-	(712,912)	-	445,581	-	445,581	-
Leased Employees, Net	-	-	-	-	(487,434)	-	(487,434)	-
Contracted Services	-	-	-	-	1,641	1,641	-	-
Employee Benefits	1,246,367	1,067,933	178,434	-	1,126,897	973,504	153,393	-
Payroll Taxes	679,281	582,034	97,247	-	626,128	544,713	81,415	-
Staff Development	172,455	172,455	-	-	198,079	198,079	-	-
Other Staff-Related Expense	<u>113,933</u>	<u>97,622</u>	<u>16,311</u>	<u>-</u>	<u>98,304</u>	<u>85,521</u>	<u>12,783</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 9,492,281</u>	<u>\$ 8,854,053</u>	<u>\$ 638,228</u>	<u>\$ -</u>	<u>\$ 8,863,918</u>	<u>\$ 8,154,510</u>	<u>\$ 709,408</u>	<u>\$ -</u>
<u>Direct Student Costs:</u>								
Textbooks and Assessment Materials	\$ 21,495	\$ 21,495	\$ -	\$ -	\$ 19,687	\$ 19,687	\$ -	\$ -
Food Service	451,564	451,564	-	-	455,877	455,877	-	-
Student Supplies and Materials	99,522	99,522	-	-	68,839	68,839	-	-
Contracted Instruction Fees	112,446	112,446	-	-	120,200	120,200	-	-
Special Education Contracted Services	100,853	100,853	-	-	56,834	56,834	-	-
Field Trips	36,659	36,659	-	-	33,924	33,924	-	-
Other Student Costs	<u>127,303</u>	<u>127,303</u>	<u>-</u>	<u>-</u>	<u>86,863</u>	<u>86,863</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 949,842</u>	<u>\$ 949,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 842,224</u>	<u>\$ 842,224</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,445,412	\$ 1,275,454	\$ 169,958	\$ -	\$ 1,346,621	\$ 1,256,652	\$ 89,969	\$ -
Contracted Building Services	161,640	161,640	-	-	164,426	164,426	-	-
Utilities	180,456	166,347	14,109	-	164,644	164,644	-	-
Maintenance and Improvements	174,613	169,896	4,717	-	138,705	137,078	1,627	-
Depreciation and Amortization	<u>286,712</u>	<u>286,712</u>	<u>-</u>	<u>-</u>	<u>328,220</u>	<u>328,220</u>	<u>-</u>	<u>-</u>
Total Occupancy Costs	<u>\$ 2,248,833</u>	<u>\$ 2,060,049</u>	<u>\$ 188,784</u>	<u>\$ -</u>	<u>\$ 2,142,616</u>	<u>\$ 2,051,020</u>	<u>\$ 91,596</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, 2018 AND 2017

	<u>June 30, 2018</u>				<u>June 30, 2017</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 Rental and Maintenance	\$ 43,753	\$ 40,108	\$ 3,645	\$ -	\$ 42,927	\$ 39,713	\$ 3,214	\$ -
Office Supplies	159,771	115,287	44,484	-	145,128	115,727	29,401	-
Postage and Shipping	396	168	228	-	639	86	553	-
Professional Services	319,240	57,100	262,140	-	235,078	-	235,078	-
Office Printing and Copying	2,974	2,974	-	-	942	78	864	-
Telecommunications	62,177	20,752	41,425	-	71,644	27,246	44,398	-
Interest - Bond Issuance Costs	19,369	19,369	-	-	19,369	19,369	-	-
Service Charge	4,040	-	4,040	-	4,075	-	4,075	-
Total Office Expenses	<u>\$ 611,720</u>	<u>\$ 255,758</u>	<u>\$ 355,962</u>	<u>\$ -</u>	<u>\$ 519,802</u>	<u>\$ 202,219</u>	<u>\$ 317,583</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Authorizer Fees	\$ 132,979	\$ 113,032	\$ 19,947	\$ -	\$ 124,149	\$ 105,527	\$ 18,622	\$ -
Insurance	48,772	-	48,772	-	44,050	-	44,050	-
Income Taxes	2,017	-	2,017	-	-	-	-	-
Scholarship Contribution	100,000	100,000	-	-	-	-	-	-
Depreciation	54,997	54,997	-	-	94,450	94,450	-	-
Other General Expenses	59,217	15,848	43,369	-	47,840	48,117	(277)	-
Total General Expenses	<u>\$ 397,982</u>	<u>\$ 283,877</u>	<u>\$ 114,105</u>	<u>\$ -</u>	<u>\$ 310,489</u>	<u>\$ 248,094</u>	<u>\$ 62,395</u>	<u>\$ -</u>
Total Functional Expenses	<u>\$ 13,700,658</u>	<u>\$ 12,403,579</u>	<u>\$ 1,297,079</u>	<u>\$ -</u>	<u>\$ 12,679,049</u>	<u>\$ 11,498,067</u>	<u>\$ 1,180,982</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, 2018 AND 2017

June 30, 2018

	<u>Total Cost</u>	<u>Average Cost Per Student</u>
Instructional	\$ 10,343,530	\$ 15,816
Occupancy Cost	2,248,833	3,439
General and Administrative	1,108,295	1,694
Fundraising	<u>-</u>	<u>-</u>
Total	<u>\$ 13,700,658</u>	<u>\$ 20,949</u>

The above is the average per student cost for the year ended June 30, 2018, and is based on a full time equivalent (FTE) enrollment of 654 students.

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.

(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, 2018

<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 7/1/17</u>	<u>Refundable Advance at 7/1/17</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/18</u>	<u>Refundable Advance at 6/30/18</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	84.370C	U370C150002	\$ 276,424	08/12/16 to 08/12/17	\$ 80,043	\$ -	\$ 112,268	\$ 32,225	\$ -	\$ -
DC School Choice Incentive Program - EC and IAQ	84.370C	U370C170001	\$ 393,842	08/04/17 to 08/03/18	-	-	265,218	373,588	108,370	-
English Language Acquisition State Grants - Title III	84.365A	72365A	\$ 9,274	07/01/16 to 09/30/17	-	-	9,274	9,274	-	-
English Language Acquisition State Grants - Title III	84.365A	82365A	\$ 14,543	07/01/17 to 09/30/18	-	-	-	10,674	10,674	-
Charter Schools, Public Charter Schools Program - Title V	84.282A	VB.282A	\$ 174,000	07/01/17 to 07/31/19	-	-	20,000	20,000	-	-
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	82027A	\$ 6,964	07/01/17 to 09/30/18	-	-	6,964	6,964	-	-
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	82173A	\$ 1,866	07/01/17 to 09/30/18	-	-	1,866	1,866	-	-
Passed Through the Flamboyan Foundation:										
DC School Choice Incentive Program	84.370C	N/A	\$ 8,260	07/27/17 to 07/25/18	-	-	6,260	8,260	2,000	-
Total U.S. Department of Education					\$ 80,043	\$ -	\$ 421,850	\$ 462,851	\$ 121,044	\$ -
<u>U.S. Department of Agriculture:</u>										
Passed Through the District of Columbia:										
Fresh Fruits and Vegetables	10.582	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ -	\$ 20,779	\$ 25,794	\$ 5,015	\$ -
Fresh Fruits and Vegetables	10.582	N/A	N/A	07/01/16 to 06/30/17	1,221	-	1,221	-	-	-
Child Nutrition Cluster:										
National School Lunch Program	10.555	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ -	\$ 202,704	\$ 239,354	\$ 36,650	\$ -
National School Lunch Program	10.555	N/A	N/A	07/01/16 to 06/30/17	36,070	-	36,070	-	-	-
School Breakfast Program	10.553	N/A	N/A	07/01/17 to 06/30/18	-	-	70,429	83,023	12,594	-
School Breakfast Program	10.553	N/A	N/A	07/01/16 to 06/30/17	11,040	-	11,040	-	-	-
Donated Commodities (Non-cash Assistance)	10.555	N/A	\$ 26,543	07/01/17 to 06/30/18	-	-	26,516	26,516	-	-
Total Child Nutrition Cluster					\$ 47,110	\$ -	\$ 346,759	\$ 348,893	\$ 49,244	\$ -
Total U.S. Department of Agriculture					\$ 48,331	\$ -	\$ 368,759	\$ 374,687	\$ 54,259	\$ -
<u>U.S. Department of Health and Human Services:</u>										
Passed Through the District of Columbia:										
Child Care and Development Fund	93.575	80091	\$ 10,375	10/01/17 to 09/30/18	\$ -	\$ -	\$ 9,918	\$ 10,375	\$ 457	\$ -
Child Care and Development Fund	93.575	80091	\$ 5,555	07/01/16 to 06/30/17	5,555	-	5,555	-	-	-
Temporary Assistance for Needy Families	93.558	80091	\$ 97,525	07/01/17 to 06/30/18	-	-	93,226	97,525	4,299	-
Temporary Assistance for Needy Families	93.558	80091	\$ 9,219	07/01/16 to 06/30/17	9,219	-	9,219	-	-	-
Total U.S. Department of Health and Human Services					\$ 14,774	\$ -	\$ 117,918	\$ 107,900	\$ 4,756	\$ -
Total Federal Awards					\$ 143,148	\$ -	\$ 908,527	\$ 945,438	\$ 180,059	\$ -

(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, 2018

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program - SOAR	84.370C	\$ 414,073
English Language Acquisition State Grants - Title III	84.365A	19,948
Charter Schools, Public Charter Schools Program - Title V	84.282A	20,000
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	6,964
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	1,866
Fresh Fruits and Vegetables	10.582	25,794
National School Lunch Program	10.555	239,354
Donated Commodities	10.555	26,516
School Breakfast Program	10.553	83,023
Child Care and Development Fund	93.575	10,375
Temporary Assistance for Needy Families	93.558	<u>97,525</u>
 Total Federal Awards		 <u>\$ 945,438</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, 2018

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, 2018. 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 - Food Commodities:

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note 4 - Pass-Through Funds:

The Charter School did not pass through any federal funds to subrecipients.

Note 5 - 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 43.80% 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, 2018

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	\$ 414,073*
English Language Acquisition State Grants - Title III	84.365A	19,948
Charter School, Public Charter Schools Program - Title V	84.282A	20,000
Special Education - IDEA 611, Grants to Local Education Agencies	84.027A	6,964
Special Education - IDEA 619, Preschool Grants to Local Education Agencies	84.173A	1,866
Fresh Fruits and Vegetables	10.582	25,794
National School Lunch Program	10.555	239,354
Donated Commodities	10.555	26,516
School Breakfast Program	10.553	83,023
Child Care and Development Fund	93.575	10,375
Temporary Assistance for Needy Families	93.558	<u>97,525</u>
Total Federal Awards		<u>\$ 945,438</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 Directors
AppleTree Early Learning
Public Charter School
1801 Mississippi Avenue, SE
Washington, DC 20020

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, 2018, 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 September 28, 2018.

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
September 28, 2018

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Directors
AppleTree Early Learning
Public Charter School
1801 Mississippi Avenue, SE
Washington, DC 20020

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 OMB *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, 2018. 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, 2018.

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
September 28, 2018

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018

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	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 was determined to be 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.