D.C. Public Charter School Board

CHARTER REVIEW ANALYSIS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

Executive Summary

AppleTree Early Learning Public Charter School has been in existence for six years. Based on the School Reform Act, §38-1802.13(a) (b)[1], AppleTree Early Learning Public Charter School is not a candidate for charter revocation. The school has not committed any known violations of the conditions, terms, standards or procedures set forth in the charter; has met the goals and student achievement expectations set forth in the charter; has engaged in generally accepted accounting principles, has not engaged in a pattern of fiscal mismanagement and is economically viable.

Charter Review Analysis

The following analysis of AppleTree Early Learning Public Charter School's charter addresses whether it is a candidate for revocation based on §38-1802.13(a) (b) of the School Reform Act:

(1) Has the school committed a violation of applicable law or a material violation of the conditions, terms, standards, or procedures set forth in the charter, including violations relating to the education of children with disabilities? ***No.***

There is no evidence that AppleTree Early Learning Public Charter School has committed a violation of applicable law or a material violation of the conditions, terms, standards, or procedures set forth in the charter, including violations relating to the education of children with disabilities. The school has submitted Annual Reports in a timely manner; is governed by a Board of Trustees in a manner consistent with the law; has maintained the health and safety of its students; and has not committed any known violations related to the education of children with disabilities. The school is not under PCSB corrective action and had no compliance, governance or financial issues during the 2009-2010 school year. Additionally, the school passed the Preliminary Charter Review's compliance, governance, and financial standards based on data from the 2005-2009 school years.

[1] Pursuant to the School Reform Act, §38-1802.13(a) (b), a public charter school may be a candidate for revocation if the eligible chartering authority determines that the school: 1) Committed a violation of applicable law or a material violation of the conditions, terms, standards, or procedures set forth in the charter, including violations relating to the education of children with disabilities; 2) Failed to meet the goals and student academic achievement expectations set forth in the charter; 3) Engaged in a pattern of non-adherence to generally accepted accounting principles; 4) Engaged in a pattern of fiscal mismanagement; or 5) Is no longer economically viable.

D.C. Public Charter School Board

CHARTER REVIEW ANALYSIS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

(2) Has the school failed to meet the goals and student academic achievement expectations set forth in the charter? *No.*

AppleTree Early Learning Public Charter School passed the Preliminary Charter Review in February 2010. AppleTree demonstrated progress on its internal assessments and has systems in place to further monitor student performance (see Student Outcomes Narrative).

Across all of the indicators, the Riverside campus scores were lower than those at the other campuses. This campus is comprised of all four-year-olds (Pre-Kindergarten students), nearly all of whom matriculated from the Amidon campus. While on average, the baseline assessment scores at Riverside are higher than those at other campuses, the end of year assessments show the least amount of growth. AppleTree recognizes the need to raise the level of instruction in order to support students' growth towards higher levels of achievement. AppleTree is committed to providing these supports and believe that with focused professional development and the addition of a pacing guide for Pre-Kindergarten, students at Riverside will achieve higher levels.

(3) Has the school engaged in a pattern of non-adherence to generally accepted accounting principles?

Based on its interim financial reports and annual financial audits, Appletree PCS has adhered to GAAP. Key results of the FY10 financial audit are as follows:

<u>Summary of Audit Results (GAS)</u>

- The auditors’ report expresses an unqualified opinion on the financial statements
- Financial statements conform to accounting principles generally accepted in the United States of America
- No deficiencies relating to the audit of the financial statements that were considered to be material weaknesses/ significant deficiencies were reported in the report of internal control over financial reporting
- No deficiencies relating to the audit of the financial statements that were considered to be material weaknesses/ significant deficiencies were reported on compliance and other matters based on an audit of financial statements performed in accordance with GAS
- No instances of noncompliance material to the financial statements were disclosed during the audit

<u>Summary of prior audit findings and corrective action plan</u>

- Not applicable as there were no prior findings

<u>Other information</u>

- The school incurred a $46K decrease in net assets during the year
    - **Cumulative net asset surplus of $458K**
        - **$631K of cash at the end of the year**
        - **$66K account receivable**
- Average cost per student = $19,888

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

- **Related party**: Appletree Institute for Education Innovation, Inc. AIEI supports the school a strategic partner and has made a commitment to fund any operating shortfalls of the school. The school leases its facilities from the Institute. As of June 30, 2010, the school's outstanding balance due to the Institute was $0. The amount due to the Institute was $160K at the conclusion FY2009.
- **Lease commitments:** The school's lease with the Institute commenced on June 15, 2006 and expires on June 14, 2016. The school has a renewal option of five years. The annual rent is equal to the facility allotment received from the DC Government and may vary from year to year. The minimum lease payments for future time-periods FY2011 through FY2015 are $960K per annum.

Overall, Appletree PCS has been efficient in administering accounting policies which follow PCSB accounting guidelines.

Appletree PCS has submitted it annual audits to the PCSB in a timely fashion. Each of the school's audits (FY06-10) received an unqualified opinion.

(4) Has the school engaged in a pattern of fiscal mismanagement?

Based on the information available, PCSB believes that the Appletree PCS has solid fiscal management processes in place. The school's audit reports (FY06-FY10) reflect sound accounting and internal controls policies. The school has done an adequate good job submitting all necessary documents to PCSB for review when required. The school should continue to rely upon debt only when necessary. For the year ending June 30, 2010, the school's nets assets decreased to $458K down $46K from its five-year high of $504K the prior year. Additionally, the school's liquidity ratio of 1.78 is an indication that the school has rebound from its earlier liquidity challenges. As with any not-for-profit organization, the school should seek to continuously improve its fiscal management and internal controls.

(5) Is the school no longer economically viable?

The following table is a representation of the school's assets, liabilities and net assets at the conclusion of its last five fiscal periods (FY06 through FY10).

D.C. Public Charter School Board

CHARTER REVIEW ANALYSIS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

APPLETREE PCS: 5-YEAR SFP ANALYSIS	2006	2007	2008	2009	2010
Assets					
Current Assets:					
Cash	$ 508	$ 6,099	$ 252,400	$ 860,260	$ 630,651
Accounts receivable	$ 1,947	$ -	$ 39,142	$ 88,253	$ 66,496
Prepaid expenses	$ 2,346	$ 46,511	$ 7,272	$ 20,760	$ 22,600
Total Current Assets	$ 4,801	$ 52,610	$ 298,814	$ 969,273	$ 719,747
Fixed Assets					
PPE net	$ 32,642	$ 27,374	$ 73,468	$ 52,619	$ 68,470
Total NonCurrent Assets, net	$ 32,642	$ 27,374	$ 73,468	$ 52,619	$ 68,470
Other assets					$ 73,000
Total assets	**$ 37,443**	**$ 79,984**	**$ 372,282**	**$ 1,021,892**	**$ 861,217**
Liabilities and Net Assets					
Current liabilities					
Accounts payable	$ 1,460	$ 28,834	$ 4,681	$ 3,275	$ 35,968
Accrued payroll	$ 16,389	$ 38,910	$ 206,357	$ 213,487	$ 291,554
Deferred revenue	$ -	$ 67,751	$ 170,469	$ 141,195	$ 76,181
Due to related party	$ 12,000	$ 12,000	$ -	$ 160,224	$ -
Total current liabilities	$ 29,849	$ 147,495	$ 381,507	$ 518,181	$ 403,703
Long-term liabilties					
Note payable, non-current	$ -	$ -			$ -
Total liabilities	**$ 29,849**	**$ 147,495**	**$ 381,507**	**$ 518,181**	**$ 403,703**
Net Assets:					
Net Income	$ (876)	$ (75,105)	$ 58,286	$ 512,936	$ (46,197)
Beg. Net Assets	$ 8,470	$ 7,594	$ (67,511)	$ (9,225)	$ 503,711
Total Net Assets (Ending Net Assets)	$ 7,594	$ (67,511)	$ (9,225)	$ 503,711	$ 457,514
Total liabilities and net assets	**$ 37,443**	**$ 79,984**	**$ 372,282**	**$ 1,021,892**	**$ 861,217**
Long-term debt/ Total Equity ratio:	-	-	-	-	-
Net-working capital:	$ (25,048)	$ (94,885)	$ (82,693)	$ 451,092	$ 316,044
Liqiudity ratio:	0.16	0.36	0.78	1.87	1.78

The schools total assets increased nearly 2700% from FY06 to FY09; primarily as a result of expansion. The school's liabilities continue to remain at appropriate levels conducive to a public charter school.

The following table is a representation of the school's revenues and expenditures over the last five fiscal periods (FY06 through FY10).

D.C. Public Charter School Board

CHARTER REVIEW ANALYSIS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL

APPLETREE PCS: 5-YEAR SOA ANALYSIS										
		2006		2007		2008		2009		2010
Revenue:										
Support and revenue:										
Revenue:	$	618,896	$	749,782	$	2,618,630	$	3,644,915	$	3,533,723
Total revenue	**$**	**618,896**	**$**	**749,782**	**$**	**2,618,630**	**$**	**3,644,915**	**$**	**3,533,723**
Expenses:										
Personnel costs	$	453,998	$	567,064	$	1,566,382	$	1,925,688	$	2,322,127
Direct Student costs	$	30,484	$	76,343	$	248,523	$	197,103	$	191,442
Occupancy expenses	$	65,503	$	101,160	$	501,040	$	689,403	$	712,583
General and administrative expenses	$	69,787	$	80,320	$	244,399	$	319,785	$	353,768
Total expenses	**$**	**619,772**	**$**	**824,887**	**$**	**2,560,344**	**$**	**3,131,979**	**$**	**3,579,920**
Net Income	$	(876)	$	(75,105)	$	58,286	$	512,936	$	(46,197)
Beginning Net Assets	$	8,470	$	7,594	$	(67,511)	$	(9,225)	$	503,711
Total Net Assets (Year End Balance)	$	7,594	$	(67,511)	$	(9,225)	$	503,711	$	457,514
Profit margin		**0%**		**-10%**		**2%**		**14%**		**-1%**
Personnel costs/Total Revenue		**73%**		**76%**		**60%**		**53%**		**66%**
School Program/Total Revenue		**5%**		**10%**		**9%**		**5%**		**5%**
Occupancy expenses/Total Revenue		**11%**		**13%**		**19%**		**19%**		**20%**
G&A expenses/Total Revenue		**11%**		**11%**		**9%**		**9%**		**10%**

Appletree PCS has concluded two of its last three fiscal periods with positive net income balances. The school has been able to able to amass an adequate net asset reserve as a result of its recent budgetary successes (see table below). School leadership must look to grow the school's cash reserves to levels sufficient enough to cover three to six months of operating expenses.

Fiscal Period	2006	2007	2008	2009	2010
Net Income	$ (876)	$ (75,105)	$ 58,286	$ 512,936	$ (46,197)
Net Assets	$ 7,594	$ (67,511)	$ (9,225)	$ 503,711	$ 457,514

Appletree PCS has been able to successfully manage its working capital needs and has been able to generate positive working capital balances at the conclusion of each of the last two fiscal periods (see table below). The school has sufficient liquid assets as indicated by the FY10 year ending liquidity ratio of 1.78.

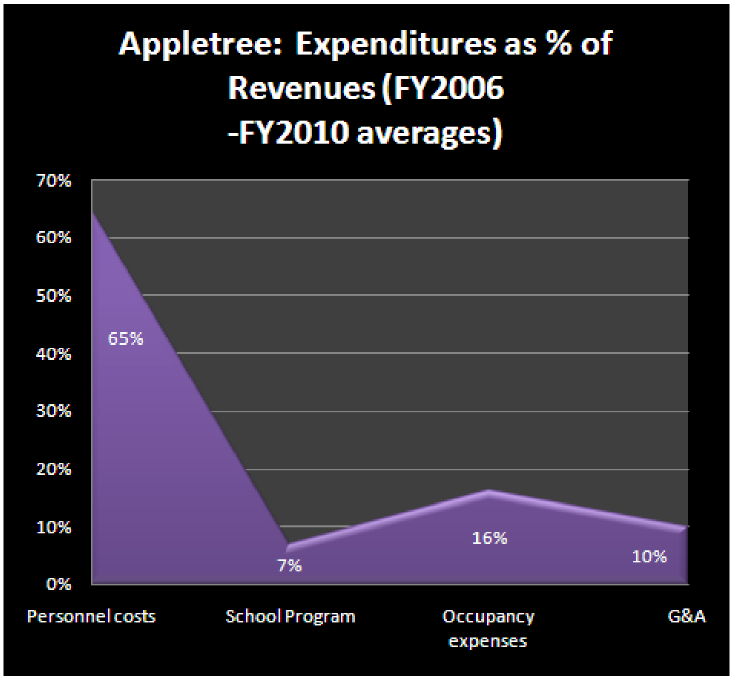
Fiscal Period	2006	2007	2008	2009	2010
Net Working Capital	$ (25,048)	$ (94,885)	$ (82,693)	$ 451,092	$ 316,044
Liquidity ratio	0.16	0.36	0.78	1.87	1.78

Appletree PCS makes spending decisions appropriate for the management of educational programs. Salaries and occupancy costs are somewhat out of line with industry comparables and PCSB financial metrics but not flagrantly. As indicated by the chart below, the school's four-year average salary and occupancy expenditures expressed as a percentage of total revenue are 65% and 16% respectively; PCSB established thresholds are 50% for salary and 25% for occupancy (75% when summed).

D.C. Public Charter School Board

CHARTER REVIEW ANALYSIS

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL



Based on the information contained in the tables and charts above, PCSB staff concludes that Appletree PCS is economically viable and of sound fiscal health.