

APPLETREE EARLY LEARNING
PUBLIC CHARTER SCHOOL

WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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 MattersSupplementary Information

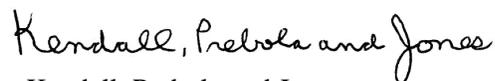
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 Information

We have audited the financial statements of the AppleTree Early Learning Public Charter School as of and for the years ended June 30, 2019 and 2018, and our report thereon dated September 23, 2019, expressed an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of contracts awarded in excess of \$25,000, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019, 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 23, 2019

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 2,275,780	\$ 5,347,247
Accounts Receivable	184,011	84,100
Grants Receivable	55,385	186,924
Promises Receivable	1,541	4,500
Due From/(To) Related Parties, Net	78,629	72,425
Prepaid Expenses	<u>30,704</u>	<u>127,547</u>
Total Current Assets	<u>\$ 2,626,050</u>	<u>\$ 5,822,743</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 9,464,031</u>	<u>\$ 3,611,365</u>
Total Fixed Assets	<u>\$ 9,464,031</u>	<u>\$ 3,611,365</u>
<u>Other Assets:</u>		
Restricted Cash, Held in Trust	\$ 1,654,761	\$ 1,433,452
Deposits	<u>140,000</u>	<u>50,000</u>
Total Other Assets	<u>\$ 1,794,761</u>	<u>\$ 1,483,452</u>
TOTAL ASSETS	<u>\$ 13,884,842</u>	<u>\$ 10,917,560</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable and Accrued Expenses	\$ 287,226	\$ 267,267
Income Taxes Payable	2,950	2,017
Accrued Wages and Salaries	699,198	648,208
Payroll Taxes and Related Liabilities	120,943	98,269
Accrued Interest	9,721	-
Deferred Revenues	446	290
Grant Payable	100,000	100,000
Related party - Loan, Current Portion	238,273	-
Capital Lease Obligation, Current Portion	<u>4,312</u>	<u>-</u>
Total Current Liabilities	<u>\$ 1,463,069</u>	<u>\$ 1,116,051</u>
<u>Long-Term Liabilities:</u>		
Bonds Payable	\$ 3,373,590	\$ 3,354,221
Related Party - Loan, Net of Current Portion	2,094,680	-
Capital Lease Obligation, Net of Current Portion	<u>5,782</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 5,474,052</u>	<u>\$ 3,354,221</u>
Total Liabilities	<u>\$ 6,937,121</u>	<u>\$ 4,470,272</u>
<u>Net Assets:</u>		
Without Donor Restrictions	\$ 6,947,721	\$ 6,447,288
With Donor Restrictions	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 6,947,721</u>	<u>\$ 6,447,288</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,884,842</u>	<u>\$ 10,917,560</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019			June 30, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<u>Revenues and Other Support:</u>						
Tuition - Per Pupil Funding Allocation	\$ 10,660,885	\$ -	\$ 10,660,885	\$ 10,457,998	\$ -	\$ 10,457,998
Tuition - Facilities Allowance	2,101,372	-	2,101,372	2,084,851	-	2,084,851
Federal Entitlements and Grants	1,066,657	-	1,066,657	945,438	-	945,438
State Government Grants	226,488	-	226,488	197,971	-	197,971
Contributions and Donations	10,457	124,154	134,611	45,691	227,388	273,079
Service Fees	224,244	-	224,244	252,684	-	252,684
Student Activity Fees and Other	290,524	-	290,524	282,047	-	282,047
Interest and Dividends	23,680	-	23,680	32,901	-	32,901
Donated Services and Materials	4,946	-	4,946	4,356	-	4,356
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	124,154	(124,154)	-	229,888	(229,888)	-
Total Revenues and Other Support	\$ 14,733,407	\$ -	\$ 14,733,407	\$ 14,533,825	\$ (2,500)	\$ 14,531,325
<u>Expenses and Losses:</u>						
Educational Services	\$ 12,385,524	\$ -	\$ 12,385,524	\$ 12,403,579	\$ -	\$ 12,403,579
General and Administrative	1,788,411	-	1,788,411	1,297,079	-	1,297,079
Fundraising	-	-	-	-	-	-
Total Expenses	\$ 14,173,935	\$ -	\$ 14,173,935	\$ 13,700,658	\$ -	\$ 13,700,658
Loss on Campus Closure	\$ 59,039	\$ -	\$ 59,039	\$ -	\$ -	\$ -
Total Expenses and Losses	\$ 14,232,974	\$ -	\$ 14,232,974	\$ 13,700,658	\$ -	\$ 13,700,658
Changes in Net Assets	\$ 500,433	\$ -	\$ 500,433	\$ 833,167	\$ (2,500)	\$ 830,667
Net Assets, Beginning of Year	6,447,288	-	6,447,288	5,614,121	2,500	5,616,621
Net Assets, End of Year	\$ 6,947,721	\$ -	\$ 6,947,721	\$ 6,447,288	\$ -	\$ 6,447,288

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019				June 30, 2018			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Personnel, Salaries and Benefits:</u>								
Leadership Salaries	\$ 1,126,896	\$ 1,062,854	\$ 64,042	\$ -	\$ 1,110,895	\$ 1,110,895	\$ -	\$ -
Teaching Staff Salaries	5,838,262	5,838,262	-	-	5,255,517	5,255,517	-	-
Student and Family Support Salaries	628,229	628,229	-	-	567,597	567,597	-	-
Business and Operations Salaries	1,059,262	28,041	1,031,221	-	1,059,148	-	1,059,148	-
Shared Administrative Support	518,627	122,073	396,554	-	(712,912)	-	(712,912)	-
Leased Employees, Net	(1,291,897)	(811,916)	(479,981)	-	-	-	-	-
Employee Benefits	1,245,296	1,087,665	157,631	-	1,246,367	1,067,933	178,434	-
Payroll Taxes	749,654	654,762	94,892	-	679,281	582,034	97,247	-
Staff Development	126,901	126,901	-	-	172,455	172,455	-	-
Other Staff-Related Expense	<u>141,507</u>	<u>123,294</u>	<u>18,213</u>	<u>-</u>	<u>113,933</u>	<u>97,622</u>	<u>16,311</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 10,142,737</u>	<u>\$ 8,860,165</u>	<u>\$ 1,282,572</u>	<u>\$ -</u>	<u>\$ 9,492,281</u>	<u>\$ 8,854,053</u>	<u>\$ 638,228</u>	<u>\$ -</u>
<u>Direct Student Costs:</u>								
Textbooks and Assessment Materials	\$ 32,739	\$ 32,739	\$ -	\$ -	\$ 21,495	\$ 21,495	\$ -	\$ -
Food Service	472,051	472,051	-	-	451,564	451,564	-	-
Student Supplies and Materials	73,865	73,865	-	-	99,522	99,522	-	-
Contracted Instruction Fees	115,200	115,200	-	-	112,446	112,446	-	-
Special Education Contracted Services	155,806	155,806	-	-	100,853	100,853	-	-
Field Trips	25,778	25,778	-	-	36,659	36,659	-	-
Other Student Costs	<u>141,675</u>	<u>141,675</u>	<u>-</u>	<u>-</u>	<u>127,303</u>	<u>127,303</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 1,017,114</u>	<u>\$ 1,017,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 949,842</u>	<u>\$ 949,842</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,001,123	\$ 901,517	\$ 99,606	\$ -	\$ 1,445,412	\$ 1,275,454	\$ 169,958	\$ -
Contracted Building Services	155,359	155,359	-	-	161,640	161,640	-	-
Utilities	153,845	143,700	10,145	-	180,456	166,347	14,109	-
Maintenance and Improvements	174,793	168,975	5,818	-	174,613	169,896	4,717	-
Interest Expense	114,944	114,944	-	-	-	-	-	-
Depreciation and Amortization	<u>452,380</u>	<u>452,380</u>	<u>-</u>	<u>-</u>	<u>286,712</u>	<u>286,712</u>	<u>-</u>	<u>-</u>
Total Occupancy Costs	<u>\$ 2,052,444</u>	<u>\$ 1,936,875</u>	<u>\$ 115,569</u>	<u>\$ -</u>	<u>\$ 2,248,833</u>	<u>\$ 2,060,049</u>	<u>\$ 188,784</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	June 30, 2019				June 30, 2018			
	Total	Educational Services	General and Administrative	Fundraising	Total	Educational Services	General and Administrative	Fundraising
<u>Office Expenses:</u>								
Equipment Rental and Maintenance	\$ 42,406	\$ 37,963	\$ 4,443	\$ -	\$ 43,753	\$ 40,108	\$ 3,645	\$ -
Office Supplies	166,056	129,128	36,928	-	159,771	115,287	44,484	-
Postage and Shipping	293	42	251	-	396	168	228	-
Professional Services	266,011	63,308	202,703	-	319,240	57,100	262,140	-
Office Printing and Copying	5,150	51	5,099	-	2,974	2,974	-	-
Telecommunications	57,229	20,323	36,906	-	62,177	20,752	41,425	-
Interest - Bond Issuance Costs	19,369	19,369	-	-	19,369	19,369	-	-
Service Charge	4,040	-	4,040	-	4,040	-	4,040	-
Total Office Expenses	<u>\$ 560,554</u>	<u>\$ 270,184</u>	<u>\$ 290,370</u>	<u>\$ -</u>	<u>\$ 611,720</u>	<u>\$ 255,758</u>	<u>\$ 355,962</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Authorizer Fees	\$ 131,132	\$ 111,462	\$ 19,670	\$ -	\$ 132,979	\$ 113,032	\$ 19,947	\$ -
Insurance	51,789	-	51,789	-	48,772	-	48,772	-
Income Taxes	3,031	-	3,031	-	2,017	-	2,017	-
Scholarship Contribution	100,000	100,000	-	-	100,000	100,000	-	-
Depreciation	73,034	73,034	-	-	54,997	54,997	-	-
Other General Expenses	42,100	16,690	25,410	-	59,217	15,848	43,369	-
Total General Expenses	<u>\$ 401,086</u>	<u>\$ 301,186</u>	<u>\$ 99,900</u>	<u>\$ -</u>	<u>\$ 397,982</u>	<u>\$ 283,877</u>	<u>\$ 114,105</u>	<u>\$ -</u>
Total Functional Expenses	<u>\$ 14,173,935</u>	<u>\$ 12,385,524</u>	<u>\$ 1,788,411</u>	<u>\$ -</u>	<u>\$ 13,700,658</u>	<u>\$ 12,403,579</u>	<u>\$ 1,297,079</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 500,433	\$ 830,667
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	525,414	341,709
Amortization - Bond Issuance Costs	19,369	19,369
Accounts Receivable - (Increase)/Decrease	(99,911)	97,633
Grants Receivable - (Increase)/Decrease	131,539	(27,147)
Promises Receivable - (Increase)/Decrease	2,959	(4,500)
Due From/(To) Related Parties, Net - (Increase)/Decrease	(6,204)	(100,580)
Prepaid Expenses - (Increase)/Decrease	96,842	(93,306)
Deposits - (Increase)/Decrease	(90,000)	-
Accounts Payable and Accrued Expenses - Increase/(Decrease)	19,959	149,330
Income Taxes Payable - Increase/(Decrease)	933	2,017
Accrued Wages and Salaries - Increase/(Decrease)	50,990	121,381
Payroll Taxes and Related Liabilities - Increase/(Decrease)	22,674	12,192
Accrued Interest - Increase/(Decrease)	9,721	-
Deferred Revenues - Increase/(Decrease)	156	(23,004)
Grant Payable - Increase/(Decrease)	<u>-</u>	<u>100,000</u>
Net Cash Flows from Operating Activities	<u>\$ 1,184,874</u>	<u>\$ 1,425,761</u>
<u>Cash Flows from Investing Activities:</u>		
Purchase of Building and Land	\$ (6,268,710)	\$ -
Purchase of Furniture and Equipment	<u>(109,369)</u>	<u>(111,824)</u>
Net Cash Flows from Investing Activities	<u>\$ (6,378,079)</u>	<u>\$ (111,824)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayments to Related Party - Loan	\$ (323,099)	\$ -
Principal Payments on Capital Lease Obligations	(4,120)	-
Proceeds on Loan Payable from Related Party	2,656,052	-
Proceeds from Capital Lease	<u>14,214</u>	<u>-</u>
Net Cash Flows from Financing Activities	<u>\$ 2,343,047</u>	<u>\$ -</u>
Net Increase/(Decrease) in Cash, Cash Equivalents and Restricted Cash	\$ (2,850,158)	\$ 1,313,937
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	<u>6,780,699</u>	<u>5,466,762</u>
Cash, Cash Equivalents and Restricted Cash, End of Year	<u>\$ 3,930,541</u>	<u>\$ 6,780,699</u>

Supplemental Disclosures:

- a) Income taxes in the amount of \$2,017 were paid during the year ended June 30, 2019.
- b) Interest in the amount of \$105,223 was paid during the year ended June 30, 2019.

Non-Cash Investing Activities:

- a) The purchase of furniture and equipment includes an amount of \$2,037 representing donated equipment.

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Cash and Cash Equivalents	\$ 2,275,780	\$ 5,347,247
Restricted Cash - Held in Trust	<u>1,654,761</u>	<u>1,433,452</u>
Total Cash, Cash Equivalents and Restricted Cash	<u>\$ 3,930,541</u>	<u>\$ 6,780,699</u>

(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 1,000 students for the 2018-2019 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

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received.

Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restriction, if any, on the contribution. An allowance for uncollectible contributions receivable is provided based upon management's judgement, including such factors as prior collection history and type of contribution.

Conditional promises, such as matching grants, are not recognized as revenue until they become unconditional, that is, until all conditions on which they depend are substantially met.

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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Corporate Taxes: (Continued)

As of June 30, 2019 and 2018, the Charter School recognized \$2,059 and \$1,412, respectively, of income tax expense related to the filing of the 990-T tax return. In addition, \$891 and \$605, respectively, 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.

(d) Government Grants:

The Charter School receives grants from federal and state governmental agencies for various purposes in the form of exchange transactions. Grant revenues are recognized based on allowable costs incurred. 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 reports information regarding its financial position and activities according to two classes of net assets. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of restrictions on use that are placed by the donor. Accordingly, net assets of the Charter School and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations and over which the Board of Directors has discretionary control. The only limits on the use of these net assets are the broad limits resulting from the Charter School's purpose, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements that are entered into in the course of its operations.

From time to time, the Board of Directors designates a portion of the Charter School's unrestricted net assets for purposes that are of importance to the organization.

Net Assets with Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature whereby the Charter School must continue to use the resources in accordance with the donor's instructions.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Net Assets with Donor Restrictions (Continued)

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service, unless the donor provides more specific directions about the period of its use. There were no net assets with donor restrictions available at year end.

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
New Site Development Program	\$ 113,636	\$ 225,000
Flamboyan Academic Partnering	10,518	2,388
Family Engagement Workshop	<u>-</u>	<u>2,500</u>
Total Net Assets Released from Restrictions	<u>\$ 124,154</u>	<u>\$ 229,888</u>

(f) Donated Services, Materials and Facilities:

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

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

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Legal Consulting	\$ 2,909	\$ 4,356
Playground materials	<u>2,037</u>	<u>-</u>
Total	<u>\$ 4,946</u>	<u>\$ 4,356</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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

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 statement of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs consist of those expenses incurred to fulfill the Charter School's mission of providing an educational foundation for preschool children. General and administrative costs pertain to supporting activities. Fundraising expenses relate to fundraising activities such as generating contributions and seeking unsolicited financial support and grants.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation methodologies based on financial results and industry standards.

Expenses that can be identified with a specific program or support service are charged directly to the program or support service. The Charter School has established a method to specifically identify and record those costs that are considered to be direct student expenses. Such program expenses consist of contracted student instruction, food service, student events, bussing and textbooks. In addition, depreciation of assets and interest on loans has been reflected as a direct program cost because these costs relate solely to the purchasing of assets for education services.

Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Personnel expense for salaries, payroll taxes and employee benefit plans are allocated based on activity reports of time spent on particular activities.
- Costs of professional fees, computer support fees, legal and accounting, dues and fees, and other similar expenses are allocated based on the underlying use of these costs by various programs determined by management and evaluated annually.
- Certain staff expenses including travel, meals and events, recruiting, and background checks are generally allocated between administrative and program functions on a percentage basis that is equivalent to that determined for salaries and wages, however wages paid to executive staff are eliminated when arriving at the allocation percentage.
- Shared costs (office supplies, telephone, copier rental, postage and office equipment) are identified as either being campus/student related or central office related. Central office expenses are supporting services and relate solely to one campus where certain administrative staff are housed.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Functional Expense Allocation Policies and Procedures: (Continued)

- Costs for facilitates such as rent, utilities, maintenance and repairs are identified as either being campus/student related or central office related. Expenses at the central office location are allocated between supporting and program services based on a predetermined agreement developed by management of the Charter School.

(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.

(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.

(l) Change in Accounting Principles:

The Charter School implemented Financial Accounting Standard Board (FASB) ASU No. 2016-14 "Presentation of Financial Statements of Not-for-Profit Entities" in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- The previously reported temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(l) Change in Accounting Principles: (Continued)

- The format of the statements of activities has been changed to present columns for both activities with donor restrictions and activities without donor restrictions as management believes this better reports changes in the Charter School's changes in financial position arising from its activities.
- The schedule of functional expenses is included as a component of the financial statements.
- The financial statements include a disclosure about liquidity and availability of resources.

The changes had no effect on net assets at July 1, 2018.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS:

The following reflects the Charter School's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

The Charter School has certain donor-restricted net assets that are considered to be available for general expenditures, because the restrictions on the net assets are expected to be met by conducting the normal activities of the programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year.

	<u>June 30, 2019</u>
Financial Assets at Year End:	
Cash and Cash Equivalents	\$ 2,275,780
Cash Held by Trustee	1,654,761
Accounts Receivable	184,011
Grants Receivable	55,385
Promises Receivable	<u>1,541</u>
Total Financial Assets	<u>\$ 4,171,478</u>
Less Amounts Not Available for General Expenditure Within One Year Due to:	
Contractual Restrictions:	
Cash Held in Trust for Bond Payments	<u>\$ 1,654,761</u>
Financial Assets Available to Meet General Expenditures Over the Next Twelve Months	<u>\$ 2,516,717</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS: (Continued)

As part of the Charter School's liquidity management, it has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations come due. In addition, the Charter School invests cash in excess of daily requirements in short-term investments through a deposit placement agreement which invests in demand deposit accounts.

4. 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, 2019, 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, 2019, the statute of limitations for tax years 2015 through 2017 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, 2019, the Charter School had no accruals for interest and/or penalties.

5. CASH, CASH EQUIVALENTS AND RESTRICTED CASH:

Cash and Cash Equivalents

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Demand Deposits	\$ 1,753,406	\$ 4,061,887
Non-Interest Bearing Checking Accounts	519,946	1,211,367
Cash-Pending Deposit	<u>2,428</u>	<u>73,993</u>
Total	<u>\$ 2,275,780</u>	<u>\$ 5,347,247</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.

As of June 30, 2019 and 2018, \$177,395 and \$890,193, 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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. CASH, CASH EQUIVALENTS AND RESTRICTED CASH: (Continued)

Cash and Cash Equivalents (Continued)

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.

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, 2019 and 2018, \$1,654,761 and \$1,433,452 in cash, respectively, was restricted for this purpose.

6. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2019 and 2018 consisted of the following:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<u>Accounts Receivable:</u>		
Every Child Ready - Service Fees	\$ 57,046	\$ 12,982
Reimbursable Expenses - Property Taxes	56,121	-
Per Pupil Funding	55,563	30,529
Medicaid - School Based Services	6,561	184
Reimbursable Expenses - Other	4,523	22,545
Student Activity Fees	3,535	715
E-Rate Program	662	17,145
Total Accounts Receivable	\$ 184,011	\$ 84,100
<u>Grants Receivable:</u>		
Charter Schools Program - Vb	\$ 20,960	\$ -
Early Care and Education Assistance	17,397	9,147
National Food Programs	12,572	54,259
Family Engagement	2,000	-
Individuals with Disabilities Education Act (IDEA)	1,865	-
Healthy Schools Act	591	2,474
DC School Choice Incentive Program - EC and IAQ	-	110,370
Elementary and Secondary Education Act	-	10,674
Total Grants Receivable	\$ 55,385	\$ 186,924

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Accounts and Grants Receivable (Continued)

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 it 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 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. Management believes that an allowance was not required based on its evaluation of collectability for the years ended June 30, 2019 and 2018.

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, 2019</u>	<u>June 30, 2018</u>
General - Unrestricted	\$ 1,541	\$ -
Stronger D.C. Community	<u> -</u>	<u> 4,500</u>
Total Promises Receivable	<u>\$ 1,541</u>	<u>\$ 4,500</u>

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

7. DUE FROM RELATED ORGANIZATION:

Because of the relationship between the Appletree Early Learning Public Charter School and the Appletree Institute for Education Innovation, certain common costs are shared dependent upon the respective benefits derived. Personnel wages and fringe benefits are provided between the two organizations through a shared services agreement and are invoiced on a monthly basis. Such amounts are recorded in the financial statements as due from related parties. The amount receivable by the Charter School at June 30, 2019 and 2018 was \$78,629 and \$72,425, respectively.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. 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 has been provided on the straight-line method over the estimated useful lives of the assets. Leasehold improvements have been amortized over the remaining term of the rental lease agreement. 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, 2019

	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	N/A	\$ 1,491,125	\$ -	\$ 1,491,125
Building	30 Years	4,942,116	(164,737)	4,777,379
Copiers	36 Months	14,214	(3,948)	10,266
Furniture and Equipment	7 Years	223,971	(91,618)	132,353
Computer Equipment	3 Years	109,876	(83,838)	26,038
Leasehold Improvements	45 Months	<u>5,038,196</u>	<u>(2,011,326)</u>	<u>3,026,870</u>
Total		<u>\$ 11,819,498</u>	<u>\$ (2,355,467)</u>	<u>\$ 9,464,031</u>

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>

Depreciation and amortization expense for the years ended June 30, 2019 and 2018, was \$525,414 and \$341,709, 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

9. 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, 2019 and 2018, a grant payment in the amount of \$100,000 was approved to be made from the Charter School to Eager to Read.

10. 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

10. 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 Ending June 30,</u>	
2020	\$ 219,792
2021	219,792
2022	219,792
2023	219,792
2024	219,792
Thereafter	<u>769,284</u>
Totals	<u>\$ 1,868,244</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, 2019 and 2018. Bond issuance costs and accumulated amortization is as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total Bond Issuance Costs	\$ 329,276	\$ 329,276
Less: Accumulated Amortization	<u>(167,866)</u>	<u>(148,497)</u>
Bond Issuance Costs, Net	<u>\$ 161,410</u>	<u>\$ 180,779</u>
Bonds Payable	\$ 3,535,000	\$ 3,535,000
Less: Bond Issuance Costs, Net	<u>(161,410)</u>	<u>(180,779)</u>
Carrying Amount of Bonds Payable	<u>\$ 3,373,590</u>	<u>\$ 3,354,221</u>

11. NOTE PAYABLE - APPLETREE INSTITUTE FOR EDUCATION INNOVATION:

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 was from a combination of both cash and a promissory note to ATI in the amount of \$2,656,052.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

11. NOTE PAYABLE - APPLETREE INSTITUTE FOR EDUCATION INNOVATION: (Continued)

On July 18, 2018, the Charter School entered into a loan agreement with the AppleTree Institute for Education Innovation in the amount of \$2,656,052. This note originally called for consecutive monthly principal payments over a six (6) year period beginning on August 1, 2018, in an amount of \$42,776, plus additional interest on the remaining principal balance at a rate fixed rate of 5.0% per annum. On July 23, 2019, the note was amended to change the term of the loan from a 72-month term loan (6 years) to a 120-month term loan (12 years) resulting in a new maturity date of July 1, 2028, and a revised monthly payment of \$26,296. This loan is guaranteed by the full faith and credit of the Charter School, however otherwise it is unsecured. The balance of this loan at June 30, 2019, was \$2,332,953. Future minimum required payments through maturity are as follows:

<u>Year Ending June 30,</u>	<u>Total Loan Payment</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 358,328	\$ 238,273	\$ 120,055
2021	315,553	215,718	99,835
2022	315,553	226,755	88,798
2023	315,553	238,356	77,197
2024	315,553	250,550	65,003
2025 - Thereafter	<u>1,288,507</u>	<u>1,163,301</u>	<u>125,206</u>
Total	<u>\$ 2,909,047</u>	<u>\$ 2,332,953</u>	<u>\$ 576,094</u>

12. CAPITAL LEASES PAYABLE:

On September 6, 2018, the Charter School entered into two separate capital leases for the purchase of two Copy Star 3252ci photocopiers. The total amount financed through the capital leases was \$14,214, payable over thirty-six (36) months with a monthly required payment of \$416. Maturity is scheduled for August 6, 2021. Interest expense was \$566 for the year ended June 30, 2019, using an implicit rate of 5.00%. The balance of the capital lease debt was \$10,094 at June 30, 2019. The Charter School is committed under this capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 4,686	\$ 4,312	\$ 374
2021	5,112	4,935	177
2022	<u>852</u>	<u>847</u>	<u>5</u>
Total	<u>\$ 10,650</u>	<u>\$ 10,094</u>	<u>\$ 556</u>

The lease is secured by the photocopier equipment and is presented as part of the carrying balance of fixed assets. For the year ended June 30, 2019, depreciation expense in the amount of \$3,948 on the photocopiers has been included in depreciation expense.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. CAPITAL LEASES PAYABLE: (Continued)

Following is a summary of assets held under capital leases:

	<u>June 30, 2019</u>
Photocopiers - Cost	\$ 14,214
Less: Accumulated Depreciation	<u>(3,948)</u>
Net Book Value Leased Equipment	<u>\$ 10,266</u>

13. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board (DCPCSB) to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board is responsible for the ongoing oversight of the Charter School's fiscal management and academic acceptability. The contract dated June 8, 2005, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about January 1, 2020. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the Charter School complies with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the Charter School's charter every five years. The first such review occurred in the spring of 2010. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract. 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 (.09% for the 18/19 and 17/18 school years) 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, 2019 and 2018, the Charter School incurred \$131,132 and \$132,979, 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, 2019, was 1,000 students. Actual enrollment for the 2018/2019 year was 644 students.

14. 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, 2019, the per pupil rate ranged from \$13,855 to \$14,282 for the educational allotment and \$3,263 for the facility allotment. 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. Additional allotments were given for Special Education needs and At Risk Students.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

14. PER PUPIL FUNDING ALLOCATION: (Continued)

Per-pupil funding for the years ended June 30, 2019 and 2018 was as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
General Education	\$ 9,059,300	\$ 8,846,663
Facilities Allowance	2,101,372	2,084,851
At Risk Students	780,673	725,546
Special Education	527,986	320,382
English as a Second Language	292,926	366,891
Teachers' Collective Bargaining	<u>-</u>	<u>198,516</u>
Total	<u>\$ 12,762,257</u>	<u>\$ 12,542,849</u>

15. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2019 and 2018, the Charter School participated in the following federal award programs:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
DC School Choice Incentive Program - EC and IAQ	\$ 402,384	\$ 414,073
National School Lunch and Breakfast Programs	336,566	348,893
Charter Schools Program - Vb	168,872	-
Childcare Subsidy Program	102,605	107,900
Fresh Fruit and Vegetable Program	31,408	25,794
Elementary and Secondary Education Act	16,399	39,948
Individuals with Disabilities Education Act (IDEA)	<u>8,423</u>	<u>8,830</u>
Total	<u>\$ 1,066,657</u>	<u>\$ 945,438</u>

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

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

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. UNUSUAL AND INFREQUENT ITEM:

Beginning in July of 2014, the AppleTree Early Learning Public Charter School operated a Pre-K Southwest campus for 108 students under a use agreement with the DC Public School system in portable classrooms at former tennis courts next to Jefferson Middle School. On June 13, 2019, the District of Columbia City Council voted to accelerate the modernization of the Jefferson Middle School. With the rehabilitation project commencing in the summer of 2019, the Charter School was forced to vacate their campus at the Jefferson Middle School. The removal and disposal of the modular units resulted in the Charter School incurring expenses in the amount of \$59,039, which have been reflected in the statement of activities as an unusual and infrequent item.

17. 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, which lapsed on July 18, 2018). Under the master lease agreement, the Charter School is required to pay monthly rent based on the facilities allowance received by the Charter School from the District of Columbia, subject to minimum and maximum monthly amounts based on the per pupil facilities allowance and student enrollment. For the year ended June 30, 2019, rent was determined based on a predetermined fixed enrollment for the Oklahoma Avenue facility at a rate of \$3,081 per student and at actual enrollment for the Parklands facility at a rate of \$3,263 per student. In addition, the Charter School incurs the costs of utilities and basic maintenance. For the years ended June 30, 2019 and 2018, rent expense under this lease agreement was \$799,471 and \$877,365, respectively.

The Charter School pays monthly condominium fees for the facility located in Columbia Heights. Total fees paid during the years ended June 30, 2019 and 2018 were \$24,542 and \$24,347, respectively.

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 lease payments under this sublease at June 30, 2019 were \$7,411. Total rent expense for the office space usage during the years ended June 30, 2019 and 2018 was \$84,578 and 125,744, respectively. During the year ended June 30, 2019, an amount of \$12,237 representing excess payments for calendar year 2018 operating expenses was refunded to the Charter School.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

17. COMMITMENTS: (Continued)

Facility Leases (Continued)

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 leased certain property from AppleTree Columbia Heights, LLC, an affiliate of ATI. The terms of this transaction were consistent with the terms of the master lease agreement with ATI, however, this lease expired on July 18, 2018. Rent was based on a rate of \$3,263 and \$3,015 per student for the years ended June 30, 2019 and 2018, respectively. Rent expense for the years ended June 30, 2019 and 2018 under this lease was \$18,947 and \$367,830, 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, 2019 and 2018 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 fourth one-year term expiring July 31, 2019. The monthly required payment at June 30, 2019, was \$1,625. During the years ended June 30, 2019 and 2018, 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.

Minimum required lease payments for the next five years are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 867,027
2021	867,027
2022	9,677
2023	9,677
2024	<u>9,677</u>
Total	<u>\$ 1,763,085</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

17. COMMITMENTS: (Continued)

Facility Leases (Continued)

Total rent expense and licensing fees for the years ended June 30, 2019 and 2018 were as follows:

<u>Landlord</u>	<u>Facility</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
ATI	Oklahoma Avenue	\$ 492,960	\$ 482,400
ATI	Parkland	300,196	274,365
ATI	Lofts/Heights of Columbia	6,315	120,600
ATI	Lincoln Park	9,677	9,677
Building Bridges (ATI Sublease)	THEARC	84,578	125,744
AppleTree Columbia Heights, LLC	Columbia Heights	18,947	367,830
Theological College, Inc.	Michigan Avenue	-	39,806
District of Columbia	Jefferson Middle School	19,495	19,495
City Lights Realty Group	Columbia Heights Condo Fees	<u>24,542</u>	<u>24,347</u>
Subtotal Paid		\$ 956,710	\$ 1,464,264
Less: Reimbursement of Prior Year Operating Expenses		(12,237)	-
Less: Sublease Reimbursements		<u>-</u>	<u>(48,238)</u>
Total Rent Expense		<u>\$ 944,473</u>	<u>\$ 1,416,026</u>

Facility Lease - Waterfront Station

The AppleTree Early Learning Public Charter School entered into a lease agreement on March 27, 2019, for the eventual rent of a school facility located at 1000 4th Street, SW, Washington, DC. With the closing of the campus at Jefferson Middle School, the Charter School's desire is to open a facility at Waterfront Station with 9,200 square feet at a to-be-developed building for the eventual education of 132 pre-school level children. It is anticipated that this facility will be available for the fiscal 2022-2023 school year. The lease calls for an initial term of twelve (12) years with one additional optional extension period of five (5) years. In addition to the monthly base rent of \$40,687, the Charter School is responsible for its pro-rata share of annual operating costs as well as an annual base rent escalation of 2.5%. The Charter School is also subject to certain guaranties and financial covenants. As a requirement of this lease, a rental security deposit of \$90,000 was paid at the time of execution.

Photocopier Operating 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 \$10,464 and \$13,539 for the years ended June 30, 2019 and 2018, respectively. Future minimum payments due under such leases are as follows:

<u>Year Ending June 30,</u>	
2020	\$ <u>3,488</u>
Total	\$ <u>3,488</u>

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

17. COMMITMENTS: (Continued)

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.

18. 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 17).

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, 2019, ATI billed \$518,627 of expenses for shared payroll and administrative costs to the Charter School. ATI incurred \$1,331,275 of expenses for shared payroll and administrative costs provided by the Charter School. 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. As of June 30, 2019 and 2018, ATI owed the Charter School an amount of \$78,629 and \$72,425, respectively.

During the years ended June 30, 2019 and 2018, the Charter School paid \$115,200 to ATI for classroom observation and the *Every Child Ready* Curriculum. In addition, during the years ended June 30, 2019 and 2018, ATI provided a contribution to the Charter School in the amount of \$113,636 and \$225,000, respectively, 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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

19. CONCENTRATIONS:

Revenues

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, 2019 and 2018, eighty-seven percent (87%) and eighty-six percent (86%), respectively, of total support, excluding donated services and facilities, was received from the District of Columbia for per pupil funding.

In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education passed through the Office of the DC Office of State Superintendent of Education. The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB).

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the AppleTree Early Learning Public Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

20. 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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

20. CONTINGENCIES: (Continued)

Litigation

From time to time, the Charter School is involved in routine litigation that arises in the ordinary course of business. There are no pending significant legal proceedings to which the Charter School is a party for which management believes the ultimate outcome would have a material adverse effect on the Charter School's financial position.

21. 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 contribution 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. Participants are 100% vested in their contributions and the 5% employee contributions. 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, 2019 and 2018 totaled \$264,821 and \$233,439, respectively.

22. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 23, 2019, 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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<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 7/1/18</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/19</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 - EC and IAQ	84.370C	U370C180001	\$ 382,130	05/25/18 to 05/24/19	\$ -	\$ 382,130	\$ 382,130	\$ -
DC School Choice Incentive Program - EC and IAQ	84.370C	U370C170001	\$ 393,842	08/04/17 to 08/03/18	108,370	128,624	20,254	-
English Language Acquisition State Grants - Title III	84.365A	92365A	\$ 12,529	07/01/18 to 09/30/19	-	12,529	12,529	-
English Language Acquisition State Grants - Title III	84.365A	82365A	\$ 14,543	07/01/17 to 09/30/18	10,674	14,544	3,870	-
Charter Schools - Title V	84.282A	VB.282A	\$ 194,000	07/26/17 to 07/25/19	-	147,912	168,872	20,960
Special Education Cluster:								
Special Education - IDEA 611, Grants to States	84.027A	92027A	\$ 6,565	07/01/18 to 09/30/19	\$ -	\$ 6,558	\$ 6,565	\$ 7
Special Education - IDEA 619, Preschool Grants	84.173A	92173A	\$ 1,858	07/01/18 to 09/30/19	-	-	1,858	1,858
Total Special Education Cluster					\$ -	\$ 6,558	\$ 8,423	\$ 1,865
Total U.S. Department of Education					\$ 119,044	\$ 692,297	\$ 596,078	\$ 22,825
<u>U.S. Department of Agriculture:</u>								
Passed Through the District of Columbia:								
Fresh Fruit and Vegetable Program	10.582	N/A	N/A	07/01/18 to 06/30/19	\$ -	\$ 30,685	\$ 31,408	\$ 723
Fresh Fruit and Vegetable Program	10.582	N/A	N/A	07/01/17 to 06/30/18	5,015	5,015	-	-
Child Nutrition Cluster:								
National School Lunch Program	10.555	N/A	N/A	07/01/18 to 06/30/19	\$ -	\$ 214,761	\$ 223,613	\$ 8,852
National School Lunch Program	10.555	N/A	N/A	07/01/17 to 06/30/18	36,650	36,650	-	-
School Breakfast Program	10.553	N/A	N/A	07/01/18 to 06/30/19	-	84,222	87,219	2,997
School Breakfast Program	10.553	N/A	N/A	07/01/17 to 06/30/18	12,594	12,594	-	-
Donated Commodities (Non-cash Assistance)	10.555	N/A	\$ 25,734	07/01/17 to 06/30/18	-	25,734	25,734	-
Total Child Nutrition Cluster					\$ 49,244	\$ 373,961	\$ 336,566	\$ 11,849
Total U.S. Department of Agriculture					\$ 54,259	\$ 409,661	\$ 367,974	\$ 12,572
<u>U.S. Department of Health and Human Services:</u>								
Passed Through the District of Columbia:								
Child Care and Development Block Grant	93.575	N/A	\$ 10,375	10/01/17 to 09/30/18	\$ 457	\$ 457	\$ -	\$ -
Temporary Assistance for Needy Families	93.558	N/A	\$ 102,605	10/01/18 to 09/30/19	-	96,690	102,605	5,915
Temporary Assistance for Needy Families	93.558	N/A	\$ 97,525	10/01/17 to 09/30/18	4,299	4,299	-	-
Total U.S. Department of Health and Human Services					\$ 4,756	\$ 101,446	\$ 102,605	\$ 5,915
Total Federal Awards					\$ 178,059	\$ 1,203,404	\$ 1,066,657	\$ 41,312

(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, 2019

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program - EC and IAQ	84.370C	\$ 402,384
English Language Acquisition State Grants - Title III	84.365A	16,399
Charter Schools - Title V	84.282A	168,872
Special Education - IDEA 611, Grants to States	84.027A	6,565
Special Education - IDEA 619, Preschool Grants	84.173A	1,858
Fresh Fruit and Vegetable Program	10.582	31,408
National School Lunch Program	10.555	223,613
School Breakfast Program	10.553	87,219
Donated Commodities	10.555	25,734
Temporary Assistance for Needy Families	93.558	<u>102,605</u>
 Total Federal Awards		 <u>\$ 1,066,657</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, 2019

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, 2019. 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 Agriculture

Child Nutrition Cluster

- School Breakfast and National School Lunch Programs
- Donated Commodities

The requirements of the Office of Management and Budget Uniform Guidance requires 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/or compliance testing. For the AppleTree Early Learning Public Charter School, the programs subject to these requirements are as listed above. The total expenditures of these programs represent 31.55% of the total federal expenditures.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Note 5 - Major Program Selection: (Continued)

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of</u> <u>Expenditures</u>
DC School Choice Incentive Program - EC and IAQ	84.370C	\$ 402,384
English Language Acquisition State Grants - Title III	84.365A	16,399
Charter School - Title V	84.282A	168,872
Special Education - IDEA 611, Grants to States	84.027A	6,565
Special Education - IDEA 619, Preschool Grants	84.173A	1,858
Fresh Fruit and Vegetable Program	10.582	31,408
National School Lunch Program	10.555	223,613*
School Breakfast Program	10.553	87,219*
Donated Commodities	10.555	25,734*
Temporary Assistance for Needy Families	93.558	<u>102,605</u>
Total Federal Awards		<u>\$ 1,066,657</u>

* Denotes Major Program

Note 6 - Major Program Disclosure:

I. U.S. Department of Agriculture

1) School Breakfast and National School Lunch Programs and Donated Commodities

The objectives of the child nutrition cluster 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.

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 23, 2019.

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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, Finding 2019-001.

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*.

AppleTree Early Learning Public Charter School's Response to Findings

AppleTree Early Learning Public Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. AppleTree Early Learning Public Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 23, 2019

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 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, 2019. 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.

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, 2019.

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 23, 2019

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019

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. One significant deficiency in internal control relating to the audit of the financial statements has 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 programs have been reported.
- e. The auditor's report on compliance for the major federal award programs 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 programs of the AppleTree Early Learning Public Charter School were as follows:

Programs	CFDA #
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Donated Commodities	10.555

- 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*

2019-001 Condition: The Charter School utilizes a credit card to purchase items for educational use. In lieu of obtaining the original receipt, some school employees take a picture of the receipt with the use of their mobile phone. This picture is then uploaded to the Expensify application and then further attached to the actual charge recorded in QuickBooks. When the picture of the invoice is being taken, the detail of the entire receipt or invoice is not being captured. The receipts to which this issue relates reflected either the total amount charged or a listing of amounts charged; however, the detail behind the purchase and what was being purchased was not included in the actual picture.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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

2019-001 (Continued)

Criteria: All credit card charges for expenses should have a supporting invoice or receipt for online purchases or for charges at the point of sale. Although the method of taking a picture is an acceptable method of obtaining a receipt, Generally Accepted Accounting Principles requires that the supporting detail be sufficient enough for the charge to be subject to the normal internal review and approval process.

Cause: The belief is that employees to whom the deficiency relates were not provided background education on the reason and necessity to photograph the entire receipt to include not only the actual amount charged but also the detail of what was being purchased. The employees believed that the pictures they were taking were sufficient enough to support the charge.

Effect: When a receipt is not presented with the supporting detail, internal controls are lacking over the approval process. The employees who are tasked with reviewing and approving the credit card charge are not able to adequately inspect the receipt to ensure the charge is reasonable and necessary.

Context: One complete month of credit card charges was selected to determine whether original invoice support and receipts were present to substantiate the charge. There were a total of 268 credit card charges in the month selected for a total sample amount of \$52,847. Of the total population selected, 34 receipts were determined not to have sufficient support, representing a total amount of \$8,116.

Recommendation: We recommend that the Charter School conduct an educational meeting with the current credit card holders. Through this meeting, discussions can be held to explain not only the importance of taking a full picture of a receipt but also the background as to why this process is important. Employees having the knowledge behind the need to complete receipts should eliminate this problem in the future.

Views of Responsible Officials:

AppleTree management is aware of the lack of consistent documentation of credit card purchases. Management has previously communicated this concern to staff that holds a credit card. Management will take the following actions to address this finding:

- Immediately resend the email communication to staff with credit cards explaining the importance of attaching a photocopy of the complete receipt.
- Hold a training session on how to use the Expensify App.
- Finance Dept staff will conduct a monthly review of Expensify reports to confirm proper receipt documentation is being maintained.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

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.

APPLETREE EARLY LEARNING PUBLIC CHARTER SCHOOL
SCHEDULE OF CONTRACTS AWARDED IN EXCESS OF \$25,000
UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2019

<u>Vendor Name</u>	<u>Services Provided</u>	<u>Value</u>	<u>Conflict of Interest</u>
AppleTree Institute	Shared Staffing Services	518,627.73	no
AppleTree Institute	Rent	917,726.47	no
AppleTree Institute	ECR Curriculum, Assessments and Pedagogy	115,200.00	no
AppleTree Institute	Interest on Loan to ATI	114,377.55	no
CareFirst	Health Insurance	757,421.66	no
Revolution Foods Inc.	Food Service	446,317.09	no
BK Cleaning Services, LLC	Janitorial Services	155,359.00	no
Guardian	Dental Insurance	155,308.87	no
DC Public Charter School Board	Administrative Fee	131,386.79	no
Amazon	Supplies - School and Students	104,193.70	no
W.B. Mason Co., Inc.	Supplies - School and Students	102,841.43	no
Eager to Read	Grant - Staff scholarships	100,000.00	no
PEPCO	Utilities - Electric	97,621.72	no
EdOps	Finance and Accounting Services	95,025.00	no
Conaboy & Associates, Inc.	Special Education Contracted Services	78,457.00	no
H Innovations and Contractors Inc	Repairs	66,782.30	no
Relay Graduate	Professional Development	65,000.00	no
Reliance Standard Life Insurance Company	Life Insurance	63,845.26	no
Modular Genius	Repairs (SW Campus)	54,564.00	no
Playground Specialists	Playground Installation	49,714.72	no
WMATA	Transportation Tokens for Students	41,290.00	no
DC Water and Sewer Authority	Utilities - Water and Sewer	39,755.74	no
ADP Workforce Now	Payroll Services	36,538.19	no
Hanover Insurance Co.	Business Insurance	34,924.50	no
Behavioral & Educational Solutions, P.C.	Special Education Contracted Services	33,820.00	no
Apple	Technology - Computers	32,525.00	no
Valor Cleaning, Inc	Cleaning Columbia Heights	30,702.00	no
Copier Workshop	Copier Services and Supplies	27,089.30	no
Waterside Towers Apartments	Rent	26,400.00	no
Comcast	Telephone and Internet	26,023.65	no
Kendall, Prebola and Jones, LLC	Audit and Tax Return Preparation	25,962.00	no
Align Staffing	Temporary and Permanent Job Placement	No Amount Established	no
Venable, LLC	Legal Assistance	No Amount Established	no