

**Frederick Classical Charter School, Inc.**

Financial Statements

Years Ended June 30, 2021 and 2020

# Frederick Classical Charter School, Inc.

Table of Contents

Years Ended June 30, 2021 and 2020

---

---

	<u>PAGE</u>
Independent Auditor's Report	1 – 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Change in Net Assets	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 – 15



## Independent Auditor's Report

To the Board of Trustees  
Frederick Classical Charter School, Inc.  
Frederick, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of Frederick Classical Charter School, Inc., which comprise the statements of financial position as of June 30, 2021 and 2020, the related statements of activities and change in net assets, cash flows and functional expenses 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

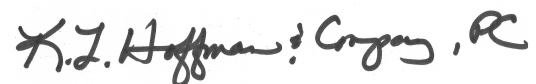
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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.

To the Board of Trustees  
Frederick Classical Charter School, Inc.  
Page 2 of 2

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frederick Classical Charter School, Inc. as of June 30, 2021 and 2020, 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.

A handwritten signature in black ink that reads "K.J. Hoffman & Company, PC". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANT

December 9, 2021

# Frederick Classical Charter School, Inc.

Statements of Financial Position

June 30, 2021 and 2020

---

---

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 281,504	\$ 125,406
Investments, at fair value	1,135,940	1,132,546
Accounts receivable	46,907	193,368
Prepaid expenses and deposits	203,414	18,598
Property, equipment, and improvements, net	<u>144,190</u>	<u>144,238</u>
Total assets	<u><u>1,811,955</u></u>	<u><u>1,614,156</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	21,281	2,519
Deferred rent expense	<u>-</u>	<u>54,826</u>
Total liabilities	<u>21,281</u>	<u>57,345</u>
Net assets:		
Donor undesignated -		
Available for general activities	1,786,592	1,556,811
Donor designated	<u>4,082</u>	<u>-</u>
Total net assets	<u>1,790,674</u>	<u>1,556,811</u>
Total liabilities and net assets	<u><u>\$ 1,811,955</u></u>	<u><u>\$ 1,614,156</u></u>

See the independent auditor's report and accompanying notes.

**Frederick Classical Charter School, Inc.**  
 Statements of Activities and Change in Net Assets  
 Years Ended June 30, 2021 and 2020

	2021			2020		
	Donor Undesignated	Donor Designated	Total	Donor Undesignated	Donor Designated	Total
Revenues, gains, and other support:						
Frederick County Public Schools						
Per pupil revenue	\$ 3,962,897	\$ -	\$ 3,962,897	\$ 3,896,386	\$ -	\$ 3,896,386
Public support:						
Contributions	2,365	4,082	6,447	7,862	-	7,862
Donated services	8,563	-	8,563	81,837	-	81,837
Total public support	10,928	4,082	15,010	89,699	-	89,699
Grants from government agencies	117,131	-	117,131	-	-	-
Other revenue:						
Rental income	2,475	-	2,475	13,796	-	13,796
Fundraising	405	-	405	12,848	-	12,848
Miscellaneous	4,413	-	4,413	18,155	-	18,155
Total other revenue	7,293	-	7,293	44,799	-	44,799
Total revenues, gains, and other support	4,098,249	4,082	4,102,331	4,030,884	-	4,030,884
Expenses:						
Program services	3,208,761	-	3,208,761	3,334,913	-	3,334,913
Management and general	659,707	-	659,707	534,990	-	534,990
Total expenses	3,868,468	-	3,868,468	3,869,903	-	3,869,903
Change in net assets	229,781	4,082	233,863	160,981	-	160,981
Net assets, beginning of year	1,556,811	-	1,556,811	1,395,830	-	1,395,830
Net assets, end of year	\$ 1,786,592	\$ 4,082	\$ 1,790,674	\$ 1,556,811	\$ -	\$ 1,556,811

## Frederick Classical Charter School, Inc.

### Statements of Cash Flows

Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 233,863	\$ 160,981
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,576	72,303
(Increase) decrease in operating assets:		
Accounts receivable	146,461	(133,050)
Prepaid expenses and deposits	(184,816)	(7,140)
Increase (decrease) in operating liabilities:		
Accounts payable	18,762	(17,518)
Deferred rent expense	(54,826)	(37,467)
Net cash provided by operating activities	<u>228,020</u>	<u>38,109</u>
Cash flows from investing activities:		
Capital expenditures	(68,528)	(31,948)
Proceeds from sales of investments	4,535,271	2,291,360
Purchase of investments	<u>(4,538,665)</u>	<u>(3,173,806)</u>
Net cash used in investing activities	<u>(71,922)</u>	<u>(914,394)</u>
Net increase (decrease) in cash and cash equivalents	156,098	(876,285)
Cash and cash equivalents - beginning of year	<u>125,406</u>	<u>1,001,691</u>
Cash and cash equivalents - end of year	<u>\$ 281,504</u>	<u>\$ 125,406</u>

See the independent auditor's report and accompanying notes.

**Frederick Classical Charter School, Inc.**

Statements of Functional Expenses

Years Ended June 30, 2021 and 2020

	2021			2020		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Payroll and payroll related	\$ 2,280,026	\$ 414,493	\$ 2,694,519	\$ 2,361,140	\$ 396,163	\$ 2,757,303
Professional fees	5,295	83,298	88,593	123,140	61,210	184,350
Supplies/curriculum	200,498	1,672	202,170	101,208	360	101,568
Rent	497,718	26,196	523,914	498,197	26,221	524,418
Occupancy	118,373	37,072	155,445	132,997	30,090	163,087
Insurance	19,803	2,200	22,003	21,388	2,376	23,764
Utilities	19,777	1,041	20,818	23,496	1,237	24,733
Advertising	-	1,198	1,198	-	871	871
Other	2,124	89,108	91,232	4,659	12,847	17,506
Depreciation	65,147	3,429	68,576	68,688	3,615	72,303
	<u>\$ 3,208,761</u>	<u>\$ 659,707</u>	<u>\$ 3,868,468</u>	<u>\$ 3,334,913</u>	<u>\$ 534,990</u>	<u>\$ 3,869,903</u>



## **Frederick Classical Charter School, Inc.**

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 1 - NATURE OF ORGANIZATION**

The mission of Frederick Classical Charter School, Inc. (the School) is to provide a charter school that would emphasize traditional content taught using research based curricula. The School which began in 2013, is a non-profit organization located in Frederick, Maryland and is funded by the Frederick County Public School System (FCPS) and contributions from the public.

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Promises to Give**

Unconditional promises to give that are expected to be collected within one (1) year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of their estimated future cash flows. When material, the discounts on those amounts are computed using rates applicable to the facts and circumstances applicable to each of the promises to give. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

#### **Accounts Receivable**

Receivables are reported at the amount management expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off, as of year-end, all balances that are believed to be uncollectable by the time the financial statements are issued. Accounting principles generally accepted in the United States of America (GAAP) requires the allowance method for accounting for bad debts, but the differences between the two methods are immaterial.

#### **Investments**

Investments consist of long-term certificates of deposit with readily determinable fair values and are carried at those values based on quoted prices in active markets (Level 1). Interest income and realized and unrealized gains or losses on investments are recorded in the period in which the interest is earned or the gains or losses occur and are included in the financial statements as undesignated activities unless designated by donor.

#### **Property and Equipment**

The School capitalizes substantial expenditures for property and equipment having a useful life of three (3) or more years. Expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed over the estimated useful life of three (3) to ten (10) years using the straight-line method. The School uses the direct expensing method to account for planned major maintenance activities. Assets donated with explicit designations regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor designations.

## **Frederick Classical Charter School, Inc.**

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Property and Equipment (continued)**

Absent donor stipulations regarding how long those donated assets must be maintained, the School reports expirations of donor designations when the donated or acquired assets are placed in service. The School reclassifies net assets with donor designations to net assets without donor designations at that time.

#### **Cash Equivalents**

For purposes of the statement of cash flows, the School considers cash equivalents to include all highly liquid debt instruments purchased with maturities of three (3) months or less.

#### **Contributions and Revenue**

Contributions received are recorded as donor undesignated or donor designated support, depending on the existence and/or nature of any donor designation.

Support that is designated by the donor is reported as an increase in donor undesignated net assets if the designation expires in the reporting period in which the support is recognized. All other donor designated support is reported as an increase in donor designated net assets, depending on the nature of the designation. When a designation expires (that is, when a stipulated time designation ends or purpose designation is accomplished), donor designated net assets are reclassified to donor undesignated net assets and reported in the statement of activities and change in net assets as net assets released from designations. Governmental grant awards are classified as refundable advances until expended for the purpose of the grants since they are conditional promises to give.

#### **Donated Services**

The School recognizes donated services that creates or enhances nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

#### **Cost Allocation**

The financial statements report certain categories of expenses that are attributable to program or supporting services. Management's estimate of the allocations of expenses to program service, management and general, and fund raising is based on appropriate allocation factors such as estimated time spent in those areas or square footage used.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 3 - CONCENTRATIONS**

The School received approximately 96% and 97% of its revenue from Frederick County Public School System for the years ended June 30, 2021 and 2020, respectively. 95% and 99% of accounts receivable are from Frederick County Public School System for the years ended June 30, 2021 and 2020, respectively. Under the current Charter School Agreement, the School's charter expires on June 30, 2025.

### **NOTE 4 - INCOME TAXES**

The School is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (Code) and comparable State law, and contributions to them are tax deductible within the limitations prescribed by the Code. The School has been classified as a publicly-supported organization which is not a private foundation under Section 509(a) of the Code.

The Internal Revenue Service has not examined (audited) the previous tax returns of the School, thus the previous three (3) years are subject to examination. The School has not taken any questionable tax positions with respect to unrelated business income tax or anything that would jeopardize its 501(c)(3) status.

### **NOTE 5 - USE OF ESTIMATES IN FINANCIAL STATEMENTS**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **NOTE 6 - PROPERTY, EQUIPMENT, AND IMPROVEMENTS**

Property, equipment, and improvements consist of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 338,879	\$ 291,361
Furniture and fixtures	149,904	187,632
Equipment	77,334	77,334
Construction in progress	28,688	7,678
	594,805	564,005
Less: accumulated depreciation	<u>(450,615)</u>	<u>(419,767)</u>
Net property, equipment, and improvements	<u>\$ 144,190</u>	<u>\$ 144,238</u>

See the independent auditor's report.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 7 - COMMITMENTS**

The School leases its facilities under an operating lease, with an eight (8) year lease term ending July 21, 2021. The School signed a lease extension through June 30, 2023. The lease has a 3% annual escalation rate. Rent expense was approximately \$524,000 for the years ended June 30, 2021 and 2020.

Future minimum lease payments are as following for the years ending:

2022	\$	596,345
2023	\$	614,236

The School leases multiple copiers under an operating lease for five (5) years expiring in the year ending June 30, 2025, with monthly payments of approximately \$600. Lease expense was approximately \$8,100 and \$8,700 for the years ended June 30, 2021 and 2020, respectively.

Future minimum lease payments are as following for the years ending:

2022	\$	7,176
2023		7,176
2024		7,716
2025	\$	2,392

The School signed an agreement to purchase property in Frederick County if the site plan is approved. The purchase price of the property ranges from \$1,200,000 (one million two hundred thousand) to \$1,300,000 (one million three hundred thousand) depending on the closing date of the sale. The agreement required a deposit of \$200,000, which is included in prepaid expenses and deposits on the statement of financial position. If the School does not receive site plan approval by July 31, 2022, the agreement will become null and void.

### **NOTE 8 - SUBLEASE**

In April 2013, the School began leasing a part of its facilities under a sub-lease agreement for Before and After School and Summer Child Care Services. Effective September 2017 a new lease was negotiated. The term of the new lease is two (2) years ending August 2019. A new lease was signed January 31, 2019, with a two (2) year term, beginning on or about September 3, 2019 and ending June 30, 2021. Monthly rental payments are expected to be \$1,650. Rental income totaled \$2,478 and \$13,796 for the years ending June 30, 2021 and 2020, respectively.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

---

### NOTE 9 - CONTINGENCY

In March 2020, the World Health Organization declared the spread of the Coronavirus Disease (Covid-19) a worldwide pandemic. The Covid-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The Covid-19 outbreak is still evolving and the financial impact remains unknown. There is uncertainty regarding Covid-19's impact on the world's economy and therefore on the Organization and its stakeholders.

### NOTE 10 - DONATED SERVICES

Donated services included in the financial statements consisted of assistance in the following areas for the years ended June 30,:

	<u>2021</u>	<u>2020</u>
Accounting services	\$ 6,063	\$ 1,837
Legal services	2,500	-
Health services	-	80,000
	<u>\$ 8,563</u>	<u>\$ 81,837</u>

Accounting, health services and legal services are included in professional fees in the statements of activities and change in net assets.

### NOTE 11 - FAIR VALUE MEASUREMENTS

The accounting codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the assets or liabilities. The hierarchy requires the use of observable market data when available. The three levels of the fair value hierarchy are defined as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

### NOTE 11 - FAIR VALUE MEASUREMENTS (continued)

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities and market-corroborated inputs.

If the assets or liabilities has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the assets or liabilities.

Level 3 - Inputs to the valuation methodology are unobservable for the assets or liabilities and are significant to the fair value measurement.

The assets or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization recognizes transfers into and out of levels at the end of the reporting period. There were no transfers between levels in the years ended June 30, 2021 and 2020.

Fair values of assets and liabilities measured on a recurring basis at June 30 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b><u>June 30, 2021</u></b>				
Certificates of Deposit	\$ 1,135,940	\$ 1,135,940	\$ -	\$ -
	<u>1,135,940</u>	<u>1,135,940</u>	<u>-</u>	<u>-</u>
<b><u>June 30, 2020</u></b>				
Certificates of Deposit	1,132,546	1,132,546	-	-
	<u>\$ 1,132,546</u>	<u>\$ 1,132,546</u>	<u>\$ -</u>	<u>\$ -</u>

See the independent auditor's report.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

---

### NOTE 12 - INVESTMENTS

The School's investments are carried at fair value (as determined by quoted prices in an active market for identical assets).

Investments consisted of the following at June 30:

	<u>2021</u>		<u>2020</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 1,135,940</u>	<u>\$ 1,135,940</u>	<u>\$ 1,132,546</u>	<u>\$ 1,132,546</u>

Investment income is included in miscellaneous revenue on that statement of activities and change in net assets and consists of the following for the years ended June 30.:

	<u>2021</u>	<u>2020</u>
Interest	<u>\$ 3,523</u>	<u>\$ 9,264</u>

### NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use because of contractual or donor designations within one year of the statements of financial position.

	<u>2021</u>	<u>2020</u>
Financial assets at year-end	\$ 1,464,351	\$ 1,451,320
Less those unavailable for general expenditures within one year, due to donor designations	<u>4,082</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,460,269</u>	<u>\$ 1,451,320</u>

As part of the School's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically in certificates of deposit and money market accounts.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 14 - ACCOUNTING PRONOUNCEMENTS**

The School adopted the requirements in FASB ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The primary changes address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The adoption of this standard has no impact on the School.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2019 for non-public companies. The adoption of this standard has no impact on the School's financial position or change in its net assets.

### **NOTE 15 - CREDIT RISK**

The School maintains a cash balance at one bank in excess of \$250,000, the amount insured by the Federal Deposit Insurance Corporation; however, the School has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these balances at June 30, 2021.

### **NOTE 16 - FUNCTIONAL EXPENSES**

Management and general expenses contain an immaterial amount of fund raising expense.

### **NOTE 17 - DONOR DESIGNATED NET ASSETS**

Donor designated net assets consisted of the following at June 30,:

	<u>2021</u>	<u>2020</u>
Playground improvements	\$ 4,082	\$ -



## **Frederick Classical Charter School, Inc.**

Notes to Financial Statements

June 30, 2021 and 2020

---

### **NOTE 18 - SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through the date the financial statements were available to be issued on December 9, 2021, and determined the following to be disclosed:

The Frederick County Board of Education voted to place Frederick Classical Charter School (FCCS) on probation pursuant to Frederick County Public Schools Policy 440 Charter Schools for the 2021-2022 school year.

The School has cancelled the agreement to purchase property in Frederick County (see note 7). The School lost a \$25,000 deposit on the cancellation of the contract. The expense is included in other expenses at June 30, 2021. The remaining \$200,000 deposit is refundable. In connection with the contract cancellation approximately, \$47,400 of capitalized undepreciated assets were included in other expenses at June 30, 2021.

The School signed a new sub-lease agreement for the Before and After School and Summer Child Care Services with a term of beginning August 20, 2021 and ending June 30, 2023.