

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

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**Audited Financial Statements  
June 30, 2015 and 2014**

**Malvin, Riggins & Company, P.C.**  
**Certified Public Accountants**  
**2809 Boston Street, Suite 440**  
**Baltimore, Maryland 21224-4957**  
**(410) 675-2727**

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

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June 30, 2015 and 2014

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**MALVIN RIGGINS+COMPANY** P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

2809 Boston Street  
Suite 440  
Baltimore, MD 21224-4957  
410-675-2727 (P)  
410-558-3807 (F)

**Independent Auditors' Report**

**Board of Directors**  
**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, 2015 and 2014, and the related statements of activities and change in net assets, 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 misstatements, whether due to fraud or error.

**Auditors' 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.

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Virginia  
Washington DC  
Maryland  
North Carolina  
West Virginia  
Oklahoma  
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www.MalvinRiggins.com

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Commerce

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Chamber of Commerce

Baltimore City Chamber of  
Commerce

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Board of Directors  
Frederick Classical Charter School, Inc.  
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**Auditors' Responsibility, continued**

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 Frederick Classical Charter School, Inc., as of June 30, 2015 and 2014, 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.

*Malvin, Diggins + Company, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

Baltimore, Maryland  
September 4, 2015

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

Statements of Financial Position

June 30, 2015 and 2014

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	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 136,492	\$ 13,868
Accounts receivable	41,769	205,555
Prepaid expenses	5,168	39,000
Property, equipment, and improvements, net	444,912	195,221
	<hr/>	<hr/>
Total Assets	<u>\$ 628,341</u>	<u>\$ 453,644</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 15,085	\$ 2,501
Grant advance	-	39,000
Deferred rent expense	63,738	-
	<hr/>	<hr/>
Total Liabilities	<u>78,823</u>	<u>41,501</u>
<b>Net Assets</b>		
Unrestricted -		
Available for general activities	549,518	411,118
Temporarily restricted	-	1,025
	<hr/>	<hr/>
Total Net Assets	<u>549,518</u>	<u>412,143</u>
	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 628,341</u>	<u>\$ 453,644</u>

See independent auditors' report and accompanying notes.

**Frederick Classical Charter School, Inc.**

Statements of Activities and Change in Net Assets

Years Ended June 30, 2015 and 2014

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains, and other support</b>						
Frederick County Public Schools						
Per pupil revenue	\$ 2,793,354	\$ -	\$ 2,793,354	\$ 2,469,191	\$ -	\$ 2,469,191
Public support						
Contributions	49,012	-	49,012	18,795	1,025	19,820
Donated services	101,014	-	101,014	124,055	-	124,055
Total public support	150,026	-	150,026	142,850	1,025	143,875
Grants from government agencies	39,000	-	39,000	465,977	-	465,977
Other revenue						
Rental income	9,452	-	9,452	8,116	-	8,116
Fundraising	12,065	-	12,065	21,024	-	21,024
Miscellaneous	19,363	-	19,363	4,923	-	4,923
Total other revenue	40,880	-	40,880	34,063	-	34,063
Net assets released from restrictions	1,025	(1,025)	-	-	-	-
<b>Total revenues, gains, and other support</b>	<b>3,024,285</b>	<b>(1,025)</b>	<b>3,023,260</b>	<b>3,112,081</b>	<b>1,025</b>	<b>3,113,106</b>
<b>Expenses:</b>						
Payroll and payroll related	1,831,645	-	1,831,645	1,612,592	-	1,612,592
Professional fees	168,649	-	168,649	220,711	-	220,711
Supplies	94,969	-	94,969	281,580	-	281,580
Rent	536,208	-	536,208	411,155	-	411,155
Occupancy	141,779	-	141,779	146,869	-	146,869
Insurance	21,670	-	21,670	18,285	-	18,285
Utilities	26,311	-	26,311	20,832	-	20,832
Advertising	2,062	-	2,062	1,637	-	1,637
Other	16,826	-	16,826	8,005	-	8,005
Depreciation	45,766	-	45,766	37,460	-	37,460
<b>Total expenses</b>	<b>2,885,885</b>	<b>-</b>	<b>2,885,885</b>	<b>2,759,126</b>	<b>-</b>	<b>2,759,126</b>
<b>Change in Net Assets</b>	<b>138,400</b>	<b>(1,025)</b>	<b>137,375</b>	<b>352,955</b>	<b>1,025</b>	<b>353,980</b>
<b>Net Assets, Beginning of Year</b>	<b>411,118</b>	<b>1,025</b>	<b>412,143</b>	<b>58,163</b>	<b>-</b>	<b>58,163</b>
<b>Net Assets, End of Year</b>	<b>\$ 549,518</b>	<b>\$ -</b>	<b>\$ 549,518</b>	<b>\$ 411,118</b>	<b>\$ 1,025</b>	<b>\$ 412,143</b>

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

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 137,375	\$ 353,980
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	45,766	37,460
Capitalized donated services	(33,390)	-
(Increase) decrease in operating assets:		
Accounts receivable	163,786	(205,555)
Prepaid expenses	33,832	17,407
Increase (decrease) in operating liabilities:		
Accounts payable	12,584	2,006
Grant advance	(39,000)	(200,504)
Deferred rent expense	63,738	-
	<u>384,691</u>	<u>4,794</u>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	<u>(262,067)</u>	<u>(232,680)</u>
	<u>(262,067)</u>	<u>(232,680)</u>
Net increase (decrease) in cash and cash equivalents	122,624	(227,886)
Cash and cash equivalents - Beginning of Year	<u>13,868</u>	<u>241,754</u>
Cash and cash equivalents - End of Year	<u>\$ 136,492</u>	<u>\$ 13,868</u>

See independent auditors' report and accompanying notes.

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

Notes to the Financial Statements

June 30, 2015 and 2014

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **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 started in 2013, is a non-profit organization located in Frederick, Maryland and is funded by the Frederick County Public School System, public and governmental grants and contributions.

#### **Contributions and Revenue**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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

#### **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 uncollectible by the time the consolidated 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.

#### **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.

#### **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.



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

Notes to the Financial Statements

June 30, 2015 and 2014

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at 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. 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.

**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 Organization uses the direct expensing method to account for planned major maintenance activities.

**NOTE 2 – REVENUE CONCENTRATION**

The School received approximately 92% and 89% of its revenue from Frederick County Public School System for the years ended June 30, 2015 and 2014, respectively. Under the current Charter School Agreement, the School's charter expires on June 30, 2016, and management must either apply for a new charter ninety (90) days before this date, or apply for a two (2) year renewal of the existing charter.

**NOTE 3 – 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 publicly-supported organizations which are not private foundations under Section 509(a) of the Code.

The School filed its initial return for the year ended June 30, 2013. The Internal Revenue Service has not examined (audited) the previous tax returns of the School, thus the previous two (2) 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.

**Frederick Classical Charter School, Inc.**

Notes to the Financial Statements

June 30, 2015 and 2014

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**NOTE 4 – PROPERTY, EQUIPMENT, AND IMPROVEMENTS**

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

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 281,638	\$ 32,495
Furniture and fixtures	107,481	76,887
Equipment	<u>139,019</u>	<u>123,299</u>
	528,138	232,681
Less: accumulated depreciation	<u>(83,226)</u>	<u>(37,460)</u>
Net property, equipment, and improvements	<u><u>\$ 444,912</u></u>	<u><u>\$ 195,221</u></u>

Total depreciation expense for the years ended June 30, 2015 and 2014 was \$45,766 and \$37,460, respectively.

**NOTE 5 – FUNCTIONAL EXPENSES**

Total expenses consisted of the following at June 30,:

	<u>2015</u>	<u>2014</u>
Program services	\$ 2,438,896	\$ 2,332,251
Management and general	<u>446,989</u>	<u>426,875</u>
	<u><u>\$ 2,885,885</u></u>	<u><u>\$ 2,759,126</u></u>

Management and general includes an immaterial amount of fundraising expense for the years ended June 30, 2015 and 2014.

**NOTE 6 – 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.

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

Notes to the Financial Statements

June 30, 2015 and 2014

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**NOTE 7 – NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Purpose restrictions accomplished - Capital Campaign - Facility Expansion	<u>\$ 1,025</u>	<u>\$ -</u>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes as of June 30,:

	<u>2015</u>	<u>2014</u>
Capital Campaign - Facility Expansion	<u>\$ -</u>	<u>\$ 1,025</u>

**NOTE 9 – CAPITAL CAMPAIGN**

The School intends to raise \$150,000 through the Capital Campaign to be spent on leasehold improvements. Capital campaign income was \$32,476 and \$1,025 for the years ended June 30, 2015 and 2014, respectively.

**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>2015</u>	<u>2014</u>
Architecture services	\$ 33,390	\$ 2,500
Health services	<u>67,624</u>	<u>121,555</u>
	<u>\$ 101,014</u>	<u>\$ 124,055</u>

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

Notes to the Financial Statements

June 30, 2015 and 2014

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**NOTE 10 – DONATED SERVICES (continued)**

Architecture services are capitalized on the statement of financial position and health services are included in professional fees on the statement of activities and change in net assets.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

The School leases its facilities under an operating lease, with an eight (8) year lease term ending June 30, 2021. The lease has a 3% annual escalation rate. The lease is guaranteed by America’s Charter School Finance Corporation in the amount of \$250,000. This guarantee has a “burn off provision” that ratably decreases until expired on June 30, 2016. On August 21, 2014, the school signed an amended lease for additional square footage through July 31, 2021. Rent expense was \$536,208 and \$411,155 for the years ended June 30, 2015 and 2014, respectively.

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

2016	\$	499,226
2017		514,203
2018		529,629
2019		545,518
2020		561,883
Thereafter	\$	578,470

**NOTE 12 – SUBSEQUENT EVENTS**

The School has evaluated subsequent events through September 4, 2015, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.