



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

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**Financial Statements  
June 30, 2016 and 2015**

**Malvin, Riggins & Company, P.C.**  
**Certified Public Accountants**  
**2809 Boston Street, Suite 107**  
**Baltimore, Maryland 21224-4815**  
**(410) 675-2727**

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

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June 30, 2016 and 2015

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**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, 2016 and 2015, 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.

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, 2016 and 2015, 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  
August 23, 2016

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

Statements of Financial Position

June 30, 2016 and 2015

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 131,733	\$ 136,492
Accounts receivable	2,969	41,769
Prepaid expenses	20,775	5,168
Property, equipment, and improvements, net	<u>384,164</u>	<u>444,912</u>
 Total assets	 <u>539,641</u>	 <u>628,341</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable	55,021	15,085
Grant advance	425	-
Deferred rent expense	<u>92,089</u>	<u>63,738</u>
 Total liabilities	 <u>147,535</u>	 <u>78,823</u>
Net assets:		
Unrestricted -		
Available for general activities	383,856	549,518
Temporarily restricted	<u>8,250</u>	<u>-</u>
 Total net assets	 <u>392,106</u>	 <u>549,518</u>
 Total liabilities and net assets	 <u>\$ 539,641</u>	 <u>\$ 628,341</u>

**Frederick Classical Charter School, Inc.**

Statements of Activities and Change in Net Assets  
Years Ended June 30, 2016 and 2015

	Year Ended June 30, 2016			Year Ended June 30, 2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and other support: Frederick County Public Schools						
Per pupil revenue	\$ 3,143,511	\$ -	\$ 3,143,511	\$ 2,793,354	\$ -	\$ 2,793,354
Public support						
Contributions	19,495	8,250	27,745	49,012	-	49,012
Donated services	99,249	-	99,249	101,014	-	101,014
Total public support	118,744	8,250	126,994	150,026	-	150,026
Grants from government agencies	1,020	-	1,020	39,000	-	39,000
Other revenue						
Rental income	11,688	-	11,688	9,452	-	9,452
Fundraising	10,078	-	10,078	12,065	-	12,065
Miscellaneous	15,297	-	15,297	19,363	-	19,363
Total other revenue	37,063	-	37,063	40,880	-	40,880
Net assets released from restrictions	-	-	-	1,025	(1,025)	-
Total revenues, gains, and other support	3,300,338	8,250	3,308,588	3,024,285	(1,025)	3,023,260
Expenses:						
Payroll and payroll related	2,361,260	-	2,361,260	1,831,645	-	1,831,645
Professional fees	181,868	-	181,868	168,649	-	168,649
Supplies	95,564	-	95,564	94,969	-	94,969
Rent	530,412	-	530,412	536,208	-	536,208
Occupancy	124,913	-	124,913	141,779	-	141,779
Insurance	23,577	-	23,577	21,670	-	21,670
Utilities	32,486	-	32,486	26,311	-	26,311
Advertising	1,536	-	1,536	2,062	-	2,062
Other	24,262	-	24,262	16,826	-	16,826
Depreciation	90,122	-	90,122	45,766	-	45,766
Total expenses	3,466,000	-	3,466,000	2,885,885	-	2,885,885
Change in net assets	(165,662)	8,250	(157,412)	138,400	(1,025)	137,375
Net assets, beginning of year	549,518	-	549,518	411,118	1,025	412,143
Net assets, end of year	\$ 383,856	\$ 8,250	\$ 392,106	\$ 549,518	\$ -	\$ 549,518

See the independent auditors' report and accompanying notes.

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

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (157,412)	\$ 137,375
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	90,122	45,766
Capitalized donated services	-	(33,390)
(Increase) decrease in operating assets:		
Accounts receivable	38,800	163,786
Prepaid expenses	(15,607)	33,832
Increase (decrease) in operating liabilities:		
Accounts payable	39,936	12,584
Grant advance	425	(39,000)
Deferred rent expense	28,351	63,738
	<u>24,615</u>	<u>384,691</u>
Net cash provided by operating activities		
Cash flows from investing activities -		
Capital expenditures	<u>(29,374)</u>	<u>(262,067)</u>
	<u>(29,374)</u>	<u>(262,067)</u>
Net cash used in investing activities		
Net (decrease) increase in cash and cash equivalents	(4,759)	122,624
Cash and cash equivalents - beginning of year	<u>136,492</u>	<u>13,868</u>
Cash and cash equivalents - end of year	<u>\$ 131,733</u>	<u>\$ 136,492</u>

See the independent auditors' report and accompanying notes.



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

Notes to Financial Statements

June 30, 2016 and 2015

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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 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 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 Financial Statements

June 30, 2016 and 2015

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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 95% and 92% of its revenue from Frederick County Public School System for the years ended June 30, 2016 and 2015, respectively. Under the current Charter School Agreement, the School's charter expires on June 30, 2017.

### **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 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.

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

Notes to Financial Statements

June 30, 2016 and 2015

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

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

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 284,826	\$ 281,638
Furniture and fixtures	195,352	107,481
Equipment	<u>77,334</u>	<u>139,109</u>
	557,512	528,138
Less: accumulated depreciation	<u>(173,348)</u>	<u>(83,226)</u>
Net property, equipment, and improvements	<u><u>\$ 384,164</u></u>	<u><u>\$ 444,912</u></u>

**NOTE 5 – FUNCTIONAL EXPENSES**

Total expenses consisted of the following at June 30,:

	<u>2016</u>	<u>2015</u>
Program services	\$ 2,941,657	\$ 2,438,896
Management and general	<u>524,343</u>	<u>446,989</u>
	<u><u>\$ 3,466,000</u></u>	<u><u>\$ 2,885,885</u></u>

Management and general include an immaterial amount of fundraising expense for the years ended June 30, 2016 and 2015.

**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 Financial Statements

June 30, 2016 and 2015

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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 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished - Capital Campaign - Facility Expansion	<u>\$ -</u>	<u>\$ 1,025</u>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2016</u>	<u>2015</u>
Various facility equipment	<u>\$ 8,250</u>	<u>\$ -</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 \$0 and \$32,476 for the years ended June 30, 2016 and 2015, 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>2016</u>	<u>2015</u>
Architecture services	\$ -	\$ 33,390
Legal services	41,404	-
Health services	<u>57,845</u>	<u>67,624</u>
	<u>\$ 99,249</u>	<u>\$ 101,014</u>

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

Notes to Financial Statements

June 30, 2016 and 2015

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

Architecture services are capitalized on the statements of financial position and health and legal services are included in professional fees on the statements 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 decreased until it 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 \$530,412 and \$536,208 for the years ended June 30, 2016 and 2015, respectively.

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

2017	\$	514,203
2018		529,629
2019		545,518
2020		561,883
2021	\$	578,470

**NOTE 12 – SUBSEQUENT EVENTS**

The School has evaluated subsequent events through August 23, 2016, 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.