

Frederick Classical Charter School, Inc.

Financial Statements

Years Ended June 30, 2019 and 2018

Frederick Classical Charter School, Inc.

Table of Contents

Years Ended June 30, 2019 and 2018

	<u>PAGE</u>
Independent Auditors' 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 – 13



Independent Auditors' Report

To the 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, 2019 and 2018, and 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.

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.

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 Directors
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, 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.

K.J. Hoffman & Company, PC

CERTIFIED PUBLIC ACCOUNTANTS

August 27, 2019

Frederick Classical Charter School, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 1,001,691	\$ 340,839
Investments, at fair value	250,100	99,970
Accounts receivable	60,318	9,345
Prepaid expenses	11,458	10,176
Property, equipment, and improvements, net	<u>184,593</u>	<u>251,944</u>
Total assets	<u><u>1,508,160</u></u>	<u><u>712,274</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	20,037	14,829
Deferred rent expense	<u>92,293</u>	<u>113,393</u>
Total liabilities	<u>112,330</u>	<u>128,222</u>
Net assets -		
Undesignated -		
Available for general activities	<u>1,395,830</u>	<u>584,052</u>
Total net assets	<u>1,395,830</u>	<u>584,052</u>
Total liabilities and net assets	<u><u>\$ 1,508,160</u></u>	<u><u>\$ 712,274</u></u>

See the independent auditors' report and accompanying notes.

Frederick Classical Charter School, Inc.
 Statements of Activities and Change in Net Assets
 Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains, and other support:		
Frederick County Public Schools		
Per pupil revenue	\$ 3,777,958	\$ 3,513,874
Public support		
Contributions	7,733	6,455
Donated services	124,560	79,411
Total public support	<u>132,293</u>	<u>85,866</u>
Other revenue		
Rental income	15,492	14,378
Fundraising	14,719	25,803
Miscellaneous	29,806	10,491
Total other revenue	<u>60,017</u>	<u>50,672</u>
Total revenues, gains, and other support	<u>3,970,268</u>	<u>3,650,412</u>
Expenses:		
Program services	3,251,489	2,989,104
Management and general	569,741	522,654
Total expenses	<u>3,821,230</u>	<u>3,511,758</u>
Change in net assets before legal settlement proceeds	149,038	138,654
Proceeds from legal settlement	<u>662,740</u>	<u>-</u>
Change in net assets	811,778	138,654
Net assets, beginning of year	<u>584,052</u>	<u>445,398</u>
Net assets, end of year	<u>\$ 1,395,830</u>	<u>\$ 584,052</u>

See the independent auditors' report and accompanying notes.

Frederick Classical Charter School, Inc.

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 811,778	\$ 138,654
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,101	75,418
Unrealized (gain) loss on investments	(130)	30
(Increase) decrease in operating assets:		
Accounts receivable	(50,973)	40,445
Prepaid expenses	(1,282)	1,742
Increase (decrease) in operating liabilities:		
Accounts payable	5,208	8,591
Deferred rent expense	(21,100)	7,930
Net cash provided by operating activities	<u>811,602</u>	<u>272,810</u>
Cash flows from investing activities -		
Capital expenditures	(750)	-
Proceeds from sales of investments	250,000	-
Purchase of investments	(400,000)	(100,000)
Net cash used in investing activities	<u>(150,750)</u>	<u>(100,000)</u>
Net increase in cash and cash equivalents	660,852	172,810
Cash and cash equivalents - beginning of year	<u>340,839</u>	<u>168,029</u>
Cash and cash equivalents - end of year	<u>\$ 1,001,691</u>	<u>\$ 340,839</u>

See the independent auditors' report and accompanying notes.

Frederick Classical Charter School, Inc.

Statements of Functional Expenses

Years Ended June 30, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Payroll and payroll related	\$ 2,284,362	\$ 353,012	\$ 2,637,374	\$ 2,105,059	\$ 344,059	\$ 2,449,118
Professional fees	103,426	130,601	234,027	87,708	86,232	173,940
Supplies/curriculum	109,578	874	110,452	61,317	522	61,839
Rent	498,325	26,228	524,553	511,375	26,914	538,289
Occupancy	130,076	30,641	160,717	94,663	28,143	122,806
Insurance	18,030	2,003	20,033	19,748	2,194	21,942
Utilities	28,266	1,488	29,754	26,430	1,391	27,821
Advertising	-	634	634	-	2,645	2,645
Other	14,730	20,855	35,585	11,157	26,783	37,940
Depreciation	64,696	3,405	68,101	71,647	3,771	75,418
	<u>\$ 3,251,489</u>	<u>\$ 569,741</u>	<u>\$ 3,821,230</u>	<u>\$ 2,989,104</u>	<u>\$ 522,654</u>	<u>\$ 3,511,758</u>

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

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 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.

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.

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.

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.

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). Realized and unrealized gains or losses on investments are recorded in the period in which the gains or losses occur.

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

NOTE 2 - REVENUE CONCENTRATION

The School received approximately 95% and 96% of its revenue from Frederick County Public School System for the years ended June 30, 2019 and 2018, respectively. 100% and 70% of accounts receivable are from Frederick County Public School System for the years ended June 30, 2019 and 2018, respectively. Under the current Charter School Agreement, the School's charter expires on June 30, 2025.

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 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, 2019 and 2018

NOTE 4 - 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. Monthly rental payments under the lease are expected to be approximately \$1,000. 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 under the new lease are expected to be \$1,650.

NOTE 5 - PROPERTY, EQUIPMENT, AND IMPROVEMENTS

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

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 291,361	\$ 291,361
Furniture and fixtures	205,702	205,702
Equipment	77,334	77,334
Construction in progress	<u>750</u>	<u>-</u>
	575,147	574,397
Less: accumulated depreciation	<u>(390,554)</u>	<u>(322,453)</u>
Net property, equipment, and improvements	<u>\$ 184,593</u>	<u>\$ 251,944</u>

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.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The School leases its facilities under an operating lease, with an eight (8) year lease term ending July 21, 2021. The lease has a 3% annual escalation rate. Rent expense was approximately \$524,400 and \$537,600 for the years ended June 30, 2019 and 2018, respectively.

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 7 - COMMITMENTS AND CONTINGENCIES (continued)

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

2020	\$	561,883
2021		578,470
2022	\$	6,269

The School leases multiple copiers under an operating lease for five (5) years. Lease expense was approximately \$8,700 and \$9,700 for the years ended June 30, 2019 and 2018, respectively.

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

2020	\$	4,404
------	----	-------

NOTE 8 - DONATED SERVICES

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

	<u>2019</u>	<u>2018</u>
Accounting services	\$ 837	\$ 1,905
Legal services	43,323	-
Health services	80,400	77,506
	<u>\$ 124,560</u>	<u>\$ 79,411</u>

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

NOTE 9 - 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, 2019.

NOTE 10 - LEGAL SETTLEMENT

During the year ended June 30, 2019, the School received payment for a legal settlement with FCPS for withheld transportation funds from prior years in the amount of \$662,740.

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

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.

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.

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 11 - FAIR VALUE MEASUREMENTS (continued)

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)
<u>June 30, 2019</u>				
Certificate of Deposit	\$ 250,100	\$ 250,100	\$ -	\$ -
	<u>250,100</u>	<u>250,100</u>	<u>-</u>	<u>-</u>
<u>June 30, 2018</u>				
Certificate of Deposit	99,970	99,970	-	-
	<u>\$ 99,970</u>	<u>\$ 99,970</u>	<u>\$ -</u>	<u>\$ -</u>

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:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Certificate of Deposit	\$ 250,000	\$ 250,100	\$ 100,000	\$ 99,970

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.:

	2019	2018
Interest	\$ 8,644	\$ 87
Unrealized gains	130	30
	<u>\$ 8,774</u>	<u>\$ 117</u>

Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2019 and 2018

NOTE 13 - ACCOUNTING PRONOUNCEMENTS

The Organization adopted the requirements in FASB ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The primary changes include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources.

NOTE 14 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor designations within one year of the statements of financial position.

	<u>2019</u>	<u>2018</u>
Financial assets at year-end	\$ 1,312,109	\$ 450,154
Less those unavailable for general expenditures within one year, due to donor designations	<u>-</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,312,109</u>	<u>\$ 450,154</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.

NOTE 15 - FUNCTIONAL EXPENSES

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

NOTE 16 - SUBSEQUENT EVENTS

The School has evaluated subsequent events through August 27, 2019, 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.