

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**

**WITH INDEPENDENT AUDITORS' REPORT THEREON**

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**

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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 statement of financial position as of June 30, 2014, and the related statements of activities and change in net assets and cash flows for the year 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 audit. We conducted our audit 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 of material misstatement.

Members

American Institute of Certified Public Accountants

Maryland Association of Certified Public Accountants


*Auditors' Responsibility, continued*

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 Frederick Classical Charter School Inc., as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



CERTIFIED PUBLIC ACCOUNTANTS

December 9, 2014

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2014**

**ASSETS**

Cash and cash equivalents	\$ 13,868
Accounts receivable	205,555
Prepaid expenses	39,000
Property and equipment, net	<u>195,221</u>
Total assets	<u><u>453,644</u></u>

**LIABILITIES AND NET ASSETS**

Accounts payable	2,501
Grant advance	<u>39,000</u>
Total liabilities	<u>41,501</u>
Net assets:	
Unrestricted - available for general activities	411,118
Temporarily restricted	<u>1,025</u>
Total net assets	<u>412,143</u>
Total liabilities and net assets	<u><u>\$ 453,644</u></u>

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues, gains and other support:			
Frederick County Public Schools			
Per pupil revenue	\$ 2,469,191	\$ -	\$ 2,469,191
Public support -			
Received directly:			
Contributions	18,795	1,025	19,820
Donated services	124,055	-	124,055
	<u>142,850</u>	<u>1,025</u>	<u>143,875</u>
Grants from government agencies	<u>465,977</u>	<u>-</u>	<u>465,977</u>
Other revenue:			
Rental income	8,116	-	8,116
Fundraising	21,024	-	21,024
Miscellaneous	4,923	-	4,923
	<u>34,063</u>	<u>-</u>	<u>34,063</u>
Total revenues, gains and other support	<u>3,112,081</u>	<u>1,025</u>	<u>3,113,106</u>
Expenses:			
Payroll and payroll related	1,612,592	-	1,612,592
Professional fees	220,711	-	220,711
Supplies	281,580	-	281,580
Rent	411,155	-	411,155
Occupancy	146,869	-	146,869
Insurance	18,285	-	18,285
Utilities	20,832	-	20,832
Advertising	1,637	-	1,637
Other	8,005	-	8,005
Depreciation	37,460	-	37,460
Total expenses	<u>2,759,126</u>	<u>-</u>	<u>2,759,126</u>
Change in net assets	352,955	1,025	353,980
Net assets - beginning of year	<u>58,163</u>	<u>-</u>	<u>58,163</u>
Net assets - end of year	<u>\$ 411,118</u>	<u>\$ 1,025</u>	<u>\$ 412,143</u>

The accompanying notes are an integral part of these financial statements.

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2014**

Cash flows from operating activities:	
Change in net assets	\$ 353,980
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	37,460
(Increase) decrease in:	
Accounts receivable	(205,555)
Prepaid expenses	17,407
Increase (decrease) in:	
Accounts payable	2,006
Grant advance	<u>(200,504)</u>
Net cash provided by operating activities	<u>4,794</u>
Cash flows from investing activities -	
Capital expenditures	<u>(232,680)</u>
Net cash used in investing activities	<u>(232,680)</u>
Net decrease in cash and cash equivalents	(227,886)
Cash and cash equivalents - beginning of year	<u>241,754</u>
Cash and cash equivalents - end of year	<u>\$ 13,868</u>

# FREDERICK CLASSICAL CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS

### 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 difference between the two methods is immaterial.



# FREDERICK CLASSICAL CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 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 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 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 lives 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.

#### 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.

#### Donated Services

The School recognizes donated services that create or enhance 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.

**FREDERICK CLASSICAL CHARTER SCHOOL, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(CONTINUED)**

**2 - Revenue Concentration**

The School received approximately 89% of its revenue from the Frederick County Public School System for the year ended June 30, 2014. 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.

**3 - Property and Equipment**

Property and equipment consisted of the following at June 30, 2014:

Leasehold improvements	\$ 32,495
Furniture and fixtures	76,887
Equipment	<u>123,299</u>
	232,681
Less accumulated depreciation	<u>37,460</u>
	<u><u>\$ 195,221</u></u>

**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 it 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 School filed its initial return for the year ended June 30, 2013. The Internal Revenue Service has not examined (audited) the previous income tax return of Frederick Classical Charter School, Inc., thus the previous year is 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 (CONTINUED)

### **5 - Functional Expenses**

Total expenses consisted of the following at June 30, 2014:

Program services	\$ 2,332,251
Management and general	<u>426,875</u>
	<u><u>2,759,126</u></u>

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

### **6 - Temporarily Restricted Net Assets**

Temporarily restricted assets consisted of the following at June 30, 2014:

Capital Campaign - facility build out	<u>1,025</u>
	<u><u>1,025</u></u>

### **7 - 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.

### **8 - Donated Services**

Donated services consisted of assistance in the following areas for the year ended June 30, 2014:

Architecture services	2,500
Health services	<u>121,555</u>
	<u><u>\$ 124,055</u></u>

(Continued)

# FREDERICK CLASSICAL CHARTER SCHOOL, INC.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 9 - Commitments

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. Subsequent to year end, the school signed an amended lease for additional square footage through July 31, 2021. Rent expense was \$ 410,633 for the year ended June 30, 2014.

Future minimum rentals for the lease are as follows at June 30,:

2015	\$ 463,839
2016	499,227
2017	514,207
2018	529,632
2019	545,519
Thereafter	\$ 1,149,594

### 10 - Capital Campaign

The School intends to raise \$ 150,000 through the Capital Campaign to be spent on leasehold improvements. As of June 30, 2014, the capital campaign income was \$ 1,025.

### 11 - Subsequent Events

The School has evaluated subsequent events through the date the financial statements were available to be issued on December 9, 2014, and determined the following material transaction to disclose:

On August 21, 2014, the School signed an amended lease for it's facilities to increase the amount of square footage by 10,500 square feet. The lease term ends July 31, 2021.