

**Frederick Classical Charter School, Inc.**

Financial Statements

Years Ended June 30, 2022 and 2021

# Frederick Classical Charter School, Inc.

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Years Ended June 30, 2022 and 2021

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## Independent Auditor's Report

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

### Opinion

We have audited the accompanying financial statements of Frederick Classical Charter School, Inc., which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

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, 2022 and 2021, 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.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Frederick Classical Charter School, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Frederick Classical Charter School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

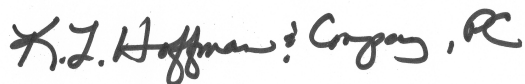
### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Frederick Classical Charter School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Frederick Classical Charter School, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CERTIFIED PUBLIC ACCOUNTANT

January 2, 2023

# Frederick Classical Charter School, Inc.

Statements of Financial Position

June 30, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 624,481	\$ 281,504
Investments, at fair value	1,338,023	1,135,940
Accounts receivable	-	46,907
Prepaid expenses and deposits	15,780	203,414
Property, equipment, and improvements, net	<u>91,397</u>	<u>144,190</u>
Total assets	<u><u>2,069,681</u></u>	<u><u>1,811,955</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	<u>87,824</u>	<u>21,281</u>
Total liabilities	<u>87,824</u>	<u>21,281</u>
Net assets:		
Donor undesignated -		
Available for general activities	1,981,857	1,786,592
Donor designated	<u>-</u>	<u>4,082</u>
Total net assets	<u>1,981,857</u>	<u>1,790,674</u>
Total liabilities and net assets	<u><u>\$ 2,069,681</u></u>	<u><u>\$ 1,811,955</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, 2022 and 2021

	2022			2021		
	Donor Undesignated	Donor Designated	Total	Donor Undesignated	Donor Designated	Total
Revenues, gains, and other support:						
Frederick County Public Schools						
Per pupil revenue	\$ 4,051,117	\$ -	\$ 4,051,117	\$ 3,962,897	\$ -	\$ 3,962,897
Public support:						
Contributions	24,693	-	24,693	2,365	4,082	6,447
Donated services	10,674	-	10,674	8,563	-	8,563
Total public support	35,367	-	35,367	10,928	4,082	15,010
Grants from government agencies	606,949	-	606,949	117,131	-	117,131
Other revenue:						
Rental income	9,267	-	9,267	2,475	-	2,475
Fundraising	15,464	-	15,464	405	-	405
Miscellaneous	9,860	-	9,860	4,413	-	4,413
Total other revenue	34,591	-	34,591	7,293	-	7,293
Net assets released from designations	4,082	(4,082)	-	-	-	-
Total revenues, gains, and other support	4,732,106	(4,082)	4,728,024	4,098,249	4,082	4,102,331
Expenses:						
Program services	3,814,241	-	3,814,241	3,208,761	-	3,208,761
Management and general	722,600	-	722,600	659,707	-	659,707
Total expenses	4,536,841	-	4,536,841	3,868,468	-	3,868,468
Change in net assets	195,265	(4,082)	191,183	229,781	4,082	233,863
Net assets, beginning of year	1,786,592	4,082	1,790,674	1,556,811	-	1,556,811
Net assets, end of year	\$ 1,981,857	\$ -	\$ 1,981,857	\$ 1,786,592	\$ 4,082	\$ 1,790,674

See the independent auditor's report and accompanying notes.

## Frederick Classical Charter School, Inc.

### Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ 191,183	\$ 233,863
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	79,375	68,576
Loss on disposal	28,688	-
(Increase) decrease in operating assets:		
Accounts receivable	46,907	146,461
Prepaid expenses and deposits	187,634	(184,816)
Increase (decrease) in operating liabilities:		
Accounts payable	66,543	18,762
Deferred rent expense	-	(54,826)
Net cash provided by operating activities	<u>600,330</u>	<u>228,020</u>
Cash flows from investing activities:		
Capital expenditures	(55,270)	(68,528)
Proceeds from sales of investments	2,711,609	4,535,271
Purchase of investments	<u>(2,913,692)</u>	<u>(4,538,665)</u>
Net cash used in investing activities	<u>(257,353)</u>	<u>(71,922)</u>
Net increase in cash and cash equivalents	342,977	156,098
Cash and cash equivalents - beginning of year	<u>281,504</u>	<u>125,406</u>
Cash and cash equivalents - end of year	<u>\$ 624,481</u>	<u>\$ 281,504</u>

See the independent auditor's report and accompanying notes.

**Frederick Classical Charter School, Inc.**

Statements of Functional Expenses

Years Ended June 30, 2022 and 2021

	2022			2021		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Payroll and payroll related	\$ 2,723,811	\$ 472,295	\$ 3,196,106	\$ 2,280,026	\$ 414,493	\$ 2,694,519
Professional fees	3,290	136,507	139,797	5,295	83,298	88,593
Supplies/curriculum	241,816	851	242,667	200,498	1,672	202,170
Rent	566,528	29,817	596,345	497,718	26,196	523,914
Occupancy	121,639	33,490	155,129	118,373	37,072	155,445
Insurance	24,014	2,668	26,682	19,803	2,200	22,003
Utilities	35,170	1,851	37,021	19,777	1,041	20,818
Advertising	-	953	953	-	1,198	1,198
Other	22,567	40,199	62,766	2,124	89,108	91,232
Depreciation	75,406	3,969	79,375	65,147	3,429	68,576
	<u>\$ 3,814,241</u>	<u>\$ 722,600</u>	<u>\$ 4,536,841</u>	<u>\$ 3,208,761</u>	<u>\$ 659,707</u>	<u>\$ 3,868,468</u>



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

Notes to Financial Statements

June 30, 2022 and 2021

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

The mission of Frederick Classical Charter School, Inc. (the School) is to provide a charter school, serving grades kindergarten through 8th grade, 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 short-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 the donor. If investment income and gains are designated by donor and designations are met in the same reporting period, they are reported as undesignated. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near-term would materially affect the amounts reported in the financial statements.

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

Notes to Financial Statements

June 30, 2022 and 2021

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

#### **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.

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 and Tangible Personal Property**

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. The School occasionally receives contributions of tangible personal property. These contributions are used in providing services to students and staff. The contributions are recognized at the item's fair value at the date of donation, estimated using sales prices for items of similar condition and comparable current rates for services.

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

Notes to Financial Statements

June 30, 2022 and 2021

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

#### **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 3 - CONCENTRATIONS**

The School received approximately 90% and 96% of its revenue from Frederick County Public School System for the years ended June 30, 2022 and 2021, respectively. Additionally, 0% and 95% of accounts receivable and 85% and 0% of accounts payable are from Frederick County Public School System for the years ended June 30, 2022 and 2021, 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.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 385,752	\$ 338,879
Furniture and fixtures	149,904	149,904
Equipment	85,731	77,334
Construction in progress	-	28,688
	<u>621,387</u>	<u>594,805</u>
Less: accumulated depreciation	<u>(529,990)</u>	<u>(450,615)</u>
Net property, equipment, and improvements	<u>\$ 91,397</u>	<u>\$ 144,190</u>

### NOTE 7 - COMMITMENTS

The School leases its facilities under an operating lease, extended through June 30, 2028. The lease has a 3% annual escalation rate. Rent expense was approximately \$596,000 and \$523,900 for the years ended June 30, 2022 and 2021.

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

2023	\$ 614,236
2024	632,570
2025	651,548
2026	671,094
2027	691,227
Thereafter	\$ 711,964

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 \$9,030 and \$8,100 for the years ended June 30, 2022 and 2021, respectively.

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

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

See the independent auditor's report.

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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### **NOTE 7 - COMMITMENTS (continued)**

During the year ended June 30, 2021, 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 to \$1,300,000 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. During the year ended June 30, 2022, the School canceled the agreement and received their deposit back.

### **NOTE 8 - SUBLEASE**

The School leases a part of its facilities under a sub-lease agreement for Before and After School and Summer Child Care Services. A two year lease agreement was in effective through June 30, 2021. Effective August 20, 2021 a new sub-lease agreement was signed with a term ending June 30, 2023. Monthly rental payments are expected to be \$1,650. Rental income totaled \$9,267 and \$2,475 for the years ending June 30, 2022 and 2021, respectively.

### **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, 2022.

### **NOTE 10 - FUNCTIONAL EXPENSES**

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

### **NOTE 11 - DONOR DESIGNATED NET ASSETS**

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

	<u>2022</u>	<u>2021</u>
Playground improvements	\$ -	\$ 4,082

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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### NOTE 12 - NET ASSETS RELEASED FROM DESIGNATIONS

Net assets were released from designations as follows for the years ended June 30,:

	<u>2022</u>	<u>2021</u>
Playground improvements	\$ 4,082	\$ -

### NOTE 13 - DONATED SERVICES

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

	<u>2022</u>	<u>2021</u>
Accounting services	\$ 3,943	\$ 6,063
Legal services	1,050	2,500
Human resource services	5,681	-
	<u>\$ 10,674</u>	<u>\$ 8,563</u>

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

### NOTE 14 - 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.
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**Frederick Classical Charter School, Inc.**

Notes to Financial Statements

June 30, 2022 and 2021

**NOTE 14 - 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, 2022 and 2021.

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, 2022</u></b>				
Certificates of Deposit	<u>\$ 1,338,023</u>	<u>\$ -</u>	<u>\$ 1,338,023</u>	<u>\$ -</u>
<b><u>June 30, 2021</u></b>				
Certificates of Deposit	<u>\$ 1,135,940</u>	<u>\$ -</u>	<u>\$ 1,135,940</u>	<u>\$ -</u>

## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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### NOTE 15 - 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>2022</u>		<u>2021</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Certificates of Deposit	<u>\$ 1,338,023</u>	<u>\$ 1,338,023</u>	<u>\$ 1,135,940</u>	<u>\$ 1,135,940</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>2022</u>	<u>2021</u>
Interest	<u>\$ 2,653</u>	<u>\$ 3,523</u>

### NOTE 16 - 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.



## Frederick Classical Charter School, Inc.

Notes to Financial Statements

June 30, 2022 and 2021

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### **NOTE 17 - 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>2022</u>	<u>2021</u>
Financial assets at year-end	\$ 1,962,504	\$ 1,464,351
Less those unavailable for general expenditures within one year, due to donor designations	<u>-</u>	<u>4,082</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,962,504</u>	<u>\$ 1,460,269</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 18 - RECLASSIFICATION**

Certain amounts pertaining to fiscal year 2021 have been reclassified to conform to current year presentation.

### **NOTE 19 - ACCOUNTING PRONOUNCEMENTS**

The FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets. ASU 2020-07 clarifies the presentation and disclosure of contributed nonfinancial assets, including land, buildings, and other items.

### **NOTE 20 - SUBSEQUENT EVENTS**

The Organization has evaluated subsequent events through the date the financial statements were available to be issued on January 2, 2023, and determined there are no events that should be disclosed.