



**Watershed Public Charter School, Inc.**

**Financial Statements  
And Independent Auditor's Report**

**June 30, 2024**

**Watershed Public Charter School, Inc.**  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Watershed Public Charter School, Inc

### Opinion

We have audited the accompanying financial statements of Watershed Public Charter School, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, statement of functional expenses, and statement of cash flows for the year then ended June 30, 2024, 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 Watershed Public Charter School, Inc. as of June 30, 2024, and the related statements of activities and changes in its net assets, statement of functional expense and statement of cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audit 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 Watershed Public Charter School, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 Watershed Public 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, including omissions, 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 Watershed Public 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 Watershed Public 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

*L&H Business Consulting, LLC*

Lutherville, Maryland

October 11, 2024

# Watershed Public Charter School, Inc.

## Statement of Financial Position

June 30, 2024

### ASSETS

Current assets	
Cash	\$ 879,410
Prepaid expenses	10,851
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Total current assets	890,261
	<hr/>
Property and equipment, net	136,391
	<hr/>
Other assets	
Security deposit	18,011
Right of use asset - capital lease, net	524,273
Right of use asset - operating lease, net	3,095,155
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Total other assets	3,637,439
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Total assets	\$ 4,664,091
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### LIABILITIES AND NET ASSETS

Current liabilities	
Accrued expenses	\$ 156,151
Right of use capital lease, current	42,472
Right of use operating lease, current	71,599
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Total current liabilities	270,222
	<hr/>
Long-term liabilities	
Right of use capital lease, long term	531,378
Right of use operating lease, long term	3,043,055
	<hr/>
Total long-term liabilities	3,574,433
	<hr/>
Total liabilities	3,844,655
	<hr/>
Net assets	
Without donor restrictions	746,851
With donor restrictions	72,585
	<hr/>
Total net assets	819,436
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Total liabilities and net assets	\$ 4,664,091
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The accompanying notes are an integral part of these financial statements.

**Watershed Public Charter School, Inc.**  
**Statement of Activities and Changes In Net Assets**  
**Year ended June 30, 2024**

	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support			
Grant revenue	\$ -	\$ 72,585	\$ 72,585
Contract revenue	3,855,245	-	3,855,245
Parent fund contributions	420	-	420
General contributions	550	-	550
Other revenue	485	-	485
	<u>3,856,700</u>	<u>72,585</u>	<u>3,929,285</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>3,856,700</u>	<u>72,585</u>	<u>3,929,285</u>
Expenses			
Program services	3,484,549	-	3,484,549
Management and general	229,188	-	229,188
Total expenses	<u>3,713,737</u>	<u>-</u>	<u>3,713,737</u>
Changes in net assets	142,963	72,585	215,548
Net assets - beginning of year	<u>603,888</u>	<u>-</u>	<u>603,888</u>
Changes in net assets	<u>142,963</u>	<u>72,585</u>	<u>215,548</u>
Net assets - end of year	<u>\$ 746,851</u>	<u>\$ 72,585</u>	<u>\$ 819,436</u>

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

# Watershed Public Charter School, Inc.

## Statement of Functional Expenses For the Year Ended June 30, 2024

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,192,976	\$ 131,723	\$ -	\$ 2,324,699
Benefits	454,322	1,806	-	456,128
Employment taxes	151,576	9,114	-	160,690
Office expenses	22,326	5,990	-	28,316
Classroom expenses	43,228	-	-	43,228
Professional development	-	6,402	-	6,402
Rent	218,245	13,931	-	232,176
Insurance	24,354	1,555	-	25,909
Student activity fund	4,612	-	-	4,612
Professional fees	-	35,173	-	35,173
Maintenance	165,029	10,534	-	175,563
Technology expense	4,834	-	-	4,834
Utilities	63,568	4,058	-	67,626
Interest	62,939	4,016	-	66,955
Depreciation	76,540	4,886	-	81,426
Total expenses	<u>\$ 3,484,549</u>	<u>\$ 229,188</u>	<u>\$ -</u>	<u>\$ 3,713,737</u>

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

# Watershed Public Charter School, Inc.

## Statement of Cash Flows For the Year Ended June 30, 2024

Cash flows from operating activities	
Change in net assets	\$ 215,548
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	19,135
Depreciation - right of use asset, capital lease	62,290
Deferred lease liability - straight line rent adjustment	(5,412)
Non-cash operating rent costs	59,893
Decrease in assets	
Prepaid expenses	7,155
Increase (decrease) in liabilities	
Accrued liabilities	118,757
Deferred income	(45,779)
Operating lease liability	<u>(40,394)</u>
Net cash provided by operating activities	<u>391,193</u>
Cash flows from investing activities	
Purchases of property and equipment	<u>(132,651)</u>
Net cash (used in) investing activities	<u>(132,651)</u>
Cash flows from financing activities	
Payments of lease liabilities	<u>(27,793)</u>
Net cash (used in) financing activities	<u>(27,793)</u>
NET INCREASE IN CASH	230,749
Cash, beginning of year	<u>648,661</u>
Cash, end of year	<u><u>\$ 879,410</u></u>

### Supplemental non-cash disclosures

Included in right of use asset - operating lease and related right of use operating lease liability is the addition of a right of use asset totaling \$3,155,048

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

# **Watershed Public Charter School, Inc.**

## **Notes to Financial Statements For the Year Ended June 30, 2024**

### **NOTE 1 – ORGANIZATION**

#### Nature of Organization

Watershed Public Charter School, Inc. (the “Organization”) was organized as a nonprofit corporation without capital stock under the laws of the State of Maryland in 2018. The Organization operates an environmental arts charter school located in Baltimore County, Maryland. Admission is open to any county resident and selected via lottery. The Organization is a public school that uses a teacher created, hands-on, multidisciplinary curriculum. The Organization encourages students and staff to spend time outdoors engaging with the campus, outdoor classroom and micro-farm.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### Basis of Accounting

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the Guide). ASC 958-205 Presentation of Financial Statements was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization’s board may designate assets without donor restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

#### Functional Allocation of Expenses

The Organization reports its expenses on a functional basis in the statement of functional expenses. These functions consist of program and supporting service costs. Direct expenses are charged directly to program services and management and general based on specific identifications. Office expenses have been allocated among the program and supporting service activities using methods such as percentage allocation based on salaries and wages.

# **Watershed Public Charter School, Inc.**

## **Notes to Financial Statements For the Year Ended June 30, 2024**

### Contributions and Revenue

Contributions and grants are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions and grants receivable are recorded after being discounted to the anticipated net present value of the future cash flows, if expected to be received beyond one year. An allowance for uncollectible contributions is made based on management's evaluation of collectability of receivables at year end. No allowance as of June 30, 2024.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions.

### Grants Revenue

Revenue from grants with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to Watershed Public Charter School, the revenue from the grant or contract is accounted for as an exchange transaction in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09 ("ASU 2014-09"), Revenue from grants that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired.

### Donated Services

The Organization recognizes revenue and corresponding expense for donated services which create or enhance nonfinancial assets or that require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

### Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as an increase in net assets with donor restrictions. The Organization follows the practice of capitalizing all expenditures for equipment and furnishings in excess of \$1,000. All property, plant, and equipment items are recorded at cost and depreciated over their estimated useful lives, using the straight-line method.

### Impairment of Long-Lived Assets

In accordance with FASB ASC 360-10 Property, Plant and Equipment, the Organization reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable through operations. The Organization evaluates whether an impairment in value has occurred by comparing the estimated future cash flows (undiscounted and without interest charges), with the carrying cost of the property. If impairment is indicated, a loss will be recorded for the amount by which the carrying value of the property exceeds its fair value. Management has determined that there has been an impairment in the carrying value of long-lived assets as of June 30, 2024.

# **Watershed Public Charter School, Inc.**

## **Notes to Financial Statements For the Year Ended June 30, 2024**

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Advertising

Advertising costs are expensed as incurred.

### Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Organization did not have any unrelated business income for the period ended June 30, 2024. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Income tax returns filed by the Organization are subject to examination by the Internal Revenue Service for a period of three years. While no income tax returns are currently being examined by the Internal Revenue Service, the tax period ended June 30, 2021, 2022 and 2023 remains open for examination.

### **NOTE 3 – CONCENTRATION OF CREDIT RISK**

#### Cash and Cash Equivalents

The Organization maintains its cash and cash equivalents in one bank. At times, these balances may exceed the Federal Deposit Insurance Corporation (FDIC) limits; however, the Organization 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 cash balance as of June 30, 2024. At June 30, 2024 the Organization's balance exceeded the federally insured limit by approximately \$644,509.

#### Revenue

The Organization is dependent upon contributions, grants and contracts to support operations. Changes in economic conditions could impact the availability of these revenue sources. A significant reduction in support, if it were to occur, may have a significant effect on the Organization's programs and operations.

A charter agreement with Baltimore County Public Schools accounted for approximately 99% of revenue for the year ended June 30, 2024. The charter agreement ends June 30, 2025.

# Watershed Public Charter School, Inc.

## Notes to Financial Statements For the Year Ended June 30, 2024

### NOTE 4 – LEASE COMMITMENTS

The Organization leases school space in Baltimore County, Maryland under an operating lease under ASC 842. The lease period is from December 1, 2023 through July 31, 2044 with an option to renew for an additional five year period, August 1, 2044 through July 31, 2049. Monthly rent payments are \$16,805 and are subject to escalations through the lease term. For the second period, third period, fourth period and, if applicable, renewal term, the annual rent shall increase by ten percent (10%) over the annual rent for the prior period of the lease. Total rent expense under the lease on a straight line basis for the year ended June 30, 2024 totaled \$137,135. Prior to executing the lease, the Organization was paying month to month lease payments. Total rent payments under the month to month lease for the year ended June 30, 2024 totaled \$87,284

The following summarizes the line items in the balance sheet, which include amounts for the operating lease.

	<u>Facility Leases</u>
Right of Use Assets	\$ 3,155,048
Lease Liability	\$ 3,155,048

The following summarizes the remaining lease term and discount rate:

	<u>Balance at</u>	<u>Remaining</u>	<u>Facility Lease</u>
		<u>Term (Yrs)</u>	<u>Discount</u>
			<u>Rate</u>
June 30, 2024	\$ 3,114,654	20.1	4.22%

Future minimum lease obligations for the year ended June 30, 2024 are as follows:

<u>Year</u>	<u>Facility Lease</u>
2025	\$ 201,663
2026	201,663
2027	201,663
2028	201,663
2029	213,427
Thereafter	<u>3,720,817</u>
Total minimum lease payments	\$ 4,740,896
Imputed Interest	<u>(1,626,242)</u>
Present value of minimum lease payments	<u>\$ 3,114,654</u>

The Organization leases school trailers from Allied Trailers Sales & Rentals. The lease period was for six months commencing on the date of delivery. Upon the expiration of the six month period, the lease terms shall automatically transfer to the a month-to-month lease. Rent expense for the year ended June 30, 2024 totaled \$7,757.

The Organization is obligated under a lease agreement, as lessee, for modular classroom which is classified as a finance lease under ASC 842. The modular classroom is leased under non-cancellable finance lease, with remaining lease term of 8.5 years. Monthly rent payments are \$8,800.

# Watershed Public Charter School, Inc.

## Notes to Financial Statements For the Year Ended June 30, 2024

The following summarizes the line items in the balance sheet, which include amounts for the finance lease.

	<u>Modular Classroom</u>
Right of Use Assets	\$ 622,899
Lease Liability	\$ 622,899

The following summarizes the remaining lease term and discount rate:

	<u>Balance at</u>	<u>Remaining Term (Yrs)</u>	<u>Modular Classroom Discount Rate</u>
June 30, 2024	\$ 573,850	8.5	12.00%

Future minimum lease obligations for the year ended June 30, 2024 are as follows:

<u>Year</u>	<u>Facility Lease</u>
2025	\$ 105,600
2026	105,600
2027	105,600
2028	105,600
2029	105,600
Thereafter	<u>360,800</u>
Total minimum lease payments	\$ 888,800
Imputed Interest	<u>(314,950)</u>
Present value of minimum lease payments	<u><u>\$ 573,850</u></u>

### NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following for the year ended June 30, 2024:

Leasehold improvements	\$ 387,447
Furniture and fixtures	112,268
Software	9,120
CIP	<u>132,651</u>
	641,486
Less accumulated depreciation	<u>(505,095)</u>
Property and equipment, net	<u><u>\$ 136,391</u></u>

### NOTE 6 – NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restriction as of June 30, 2024.

Safety Infrastructure Project	<u><u>\$ 72,585</u></u>
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# **Watershed Public Charter School, Inc.**

## **Notes to Financial Statements For the Year Ended June 30, 2024**

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

There were no net assets released from donor restrictions for the year ended June 30, 2024

### **NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTION**

Net assets without donor restrictions for the year ended June 30, 2024:

Net assets without donor restrictions	<u>\$ 746,851</u>
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### **NOTE 9 – NET ASSETS WITHOUT DONOR RESTRICTION, BOARD-DESIGNATED**

There are currently no assets without donor restriction that are designated by the Board of Directors of the Organization.

### **NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The Organization's financial assets available to meet cash needs for general expenditures within one year of June 30, 2024 are as follows:

Cash	\$ 879,410
Prepaid expenses	10,851
Less those unavailable for general expenditure within one year due to:	
Accrued expenses	(156,151)
Right of use capital lease, current	(42,472)
Right of use operating lease, current	(71,599)
Cash held for donor restrictions	<u>(72,585)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 547,454</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

### **NOTE 11 – SUBSEQUENT EVENTS**

Events that occur after the statement of financial position date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Organization through October 11, 2024 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements.