



Watershed Public Charter School, Inc.

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

June 30, 2023

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, 2023, 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, 2023, 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, 2023, 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

January 24, 2024

Watershed Public Charter School, Inc.
Statement of Financial Position
June 30, 2023

ASSETS

Current assets	
Cash	\$ 648,661
Prepaid expenses	18,006
Total current assets	666,667
Property and equipment, net	22,875
Other assets	
Security deposit	18,011
Right of use asset, net	586,563
Total other assets	604,574
Total assets	\$ 1,294,116

LIABILITIES AND NET ASSETS

Current liabilities	
Accrued expenses	\$ 37,394
Right of use lease, current	31,896
Deferred income	45,779
Total current liabilities	115,069
Long-term liabilities	
Deferred lease liability	5,412
Right of use- lease liability	569,747
Total long-term liabilities	575,159
Total liabilities	690,228
Net assets	
Without donor restrictions	603,888
With donor restrictions	-
Total net assets	603,888

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, 2023

	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support			
Grant revenue	\$ 10,000	\$ -	\$ 10,000
Contract revenue	3,323,814	-	3,323,814
Annual fund revenue	221	-	221
Other revenue	284	-	284
	<u>3,334,319</u>	<u>-</u>	<u>3,334,319</u>
Net assets released from restrictions	1,322	(1,322)	-
Total revenues, gains, and other support	<u>3,335,641</u>	<u>(1,322)</u>	<u>3,334,319</u>
Expenses			
Program services	3,156,308	-	3,156,308
Management and general	184,444	-	184,444
Fundraising	2,326	-	2,326
	<u>3,343,078</u>	<u>-</u>	<u>3,343,078</u>
Changes in net assets	(7,437)	(1,322)	(8,759)
Net assets - beginning of year	<u>611,325</u>	<u>1,322</u>	<u>612,647</u>
Changes in net assets	<u>(7,437)</u>	<u>(1,322)</u>	<u>(8,759)</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, 2023

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,003,148	\$ 102,885	\$ -	\$ 2,106,033
Benefits	375,292	2,096		377,388
Employment taxes	142,008	8,252	-	150,260
Office expenses	9,603	11,251	-	20,854
Advertising	-	35	-	35
Fundraising	-	-	2,326	2,326
Classroom expenses	20,903	-	-	20,903
Professional development	-	6,539	-	6,539
Rent	153,690	8,089	-	161,779
Insurance	24,300	1,279	-	25,579
Student activity fund	1,449	-	-	1,449
Professional fees	-	21,733	-	21,733
Maintenance	159,499	8,395	-	167,894
Technology expense	2,494	-	-	2,494
Utilities	39,676	2,088	-	41,764
Interest	55,613	2,927	-	58,540
Depreciation	168,633	8,875	-	177,508
Total expenses	\$ 3,156,308	\$ 184,444	\$ 2,326	\$ 3,343,078

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, 2023

Cash flows from operating activities	
Change in net assets	\$ (8,759)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	141,172
Depreciation - right of use asset	36,336
Deferred lease liability	(64,950)
(Increase) decrease in assets	
Prepaid expenses	2,279
Increase (decrease) in liabilities	
Accrued liabilities	(7,150)
Deferred income	45,779
	<hr/>
Net cash provided by operating activities	144,707
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Cash flows from investing activities	
Purchases of property and equipment	(11,915)
	<hr/>
Net cash used in investing activities	(11,915)
	<hr/>
Cash flows from financing activities	
Payments of lease liabilities	(21,256)
	<hr/>
Net cash used in financing activities	(21,256)
	<hr/>
NET INCREASE IN CASH	111,536
Cash, beginning of year	537,125
	<hr/>
Cash, end of year	\$ 648,661
	<hr/>

Supplemental non-cash disclosures

Included in right of use asset and related right of use lease liability is the addition of a right of use asset totaling \$622,899

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, 2023

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, 2023

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, 2023.

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, 2023.

Watershed Public Charter School, Inc.

Notes to Financial Statements For the Year Ended June 30, 2023

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, 2023. 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, 2020, 2021 and 2022 remains open for examination.

New Accounting Pronouncements

The Organization adopted Accounting Standards Update 2016-02 (as amended), Leases ("Topic 842") on January 1, 2022 ("Adoption Date)". Topic 842 required lessees to recognize a right-of-use asset and a corresponding lease liability for all leases. The package of practical expedients permitting the Organization to not reassess (i) the lease classification of existing leases; (ii) whether existing and expired contracts are or contain leases; and (iii) initial direct costs for existing leases. The Organization elected and applied the following practical expedient on the Adoption Date:

- Application of Topic 842 at the adoption date, instead of applying them to the earliest comparative period presented in the financial statements.

The Organization includes its right of use assets for finance leases within other assets and the corresponding lease liabilities within lease liabilities in its statements of financial position.

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, 2023. At June 30, 2023 the Organization's balance exceeded the federally insured limit by approximately \$345,551.

Watershed Public Charter School, Inc.

Notes to Financial Statements For the Year Ended June 30, 2023

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, 2023. The charter agreement ends June 30, 2024.

NOTE 4 – LEASE COMMITMENTS

The Organization leases school space in Baltimore County, Maryland under an operating lease. The lease period is from March 1, 2019 through July 31, 2023 with an option to renew for an additional annual period. Monthly rent payments are \$6,437 and are subject to various escalations through the lease term. Rent expense for the year ended June 30, 2023 totaled \$151,119. Future minimum lease obligations for the year ended June 30, 2023 are as follows:

	<u>Lease expense</u>	<u>Lease amount paid</u>	<u>Deferred Rent Adjustment</u>	<u>Deferred Rent Liability</u>
2024	12,594	18,006	(5,412)	-

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, 2023 totaled \$10,662.

The Organization is obligated under a lease agreement, as lessee, for modular classroom which is classified as a finance lease. The modular classroom is leased under non-cancellable finance lease, with remaining lease term of 9.5 years.

At lease commencement the Organization recognizes a lease liability, which is measured at the present value of future lease payments, and a corresponding right-of-use asset equal to the lease liability, adjusted for prepaid lease costs, initial direct costs and lease incentives. The Organization has elected and applies the practical expedient available to lessees to combine non-lease components with their related lease components and account for them as a single combined lease component for all its leases. The Organization remeasures lease liabilities and related right-of-use assets whenever there is a change to the lease term and/or there is a change in amount of future lease payments, but only when such modification does not qualify to be accounted for as a separate contract.

The Organization determines an appropriate discount rate to apply when determining the present value of the remaining lease payments for purposes of measuring or remeasuring lease liabilities. The Organization utilizes the interest rate implicit in the leases. The weighted average annual discount rate is 12%.

Watershed Public Charter School, Inc.

Notes to Financial Statements For the Year Ended June 30, 2023

For accounting purposes, the Organization's lease commence on the earlier of (i) the date upon which the Organization obtains control of the underlying asset and (ii) the contractual effective date of a lease. Lease commencement for the Organization's lease coincides with the contractual effective date.

Future minimum lease payments under the modular classroom lease are as follows:

June 30, 2024	\$	88,000
2025		105,600
2026		105,600
2027		105,600
2028		105,600
Thereafter		<u>466,400</u>
		976,800
Less: interest		<u>(375,157)</u>
Lease liability		601,643
Less: current portion		<u>(31,896)</u>
Net long term lease liability	\$	<u><u>569,747</u></u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following for the year ended June 30, 2023:

Leasehold improvements	\$	387,447
Furniture and fixtures		112,268
Software		<u>9,120</u>
		508,835
Less accumulated depreciation		<u>(485,960)</u>
Property and equipment, net	\$	<u><u>22,875</u></u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTION

There are currently no assets with donor restriction as of June 30, 2023.

NOTE 7 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions consisted of the following for the year ended June 30, 2023

Bus Field Trips	\$	<u><u>1,322</u></u>
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NOTE 8 – NET ASSETS WITHOUT DONOR RESTRICTION

Net assets without donor restrictions for the year ended June 30, 2023:

Net assets without donor restrictions	\$	<u><u>603,888</u></u>
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Watershed Public Charter School, Inc.

Notes to Financial Statements For the Year Ended June 30, 2023

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, 2023 are as follows:

Cash	\$	648,661
Prepaid expenses		18,006
Less those unavailable for general expenditure within one year due to:		
Accrued expenses		(37,394)
Right of use lease, current		<u>(31,896)</u>
Total financial assets available to meet cash needs for general expenditures within one year	\$	<u>597,377</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 January 24, 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.