

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.

OMB CIRCULAR A-133 AUDIT

FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Chesapeake Charter School Alliance, Ltd.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chesapeake Charter School Alliance, Ltd. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chesapeake Charter School Alliance, Ltd.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chesapeake Charter School Alliance, Ltd.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Chesapeake Charter School Alliance, Ltd.'s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2015-001 and 2015-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether Chesapeake Charter School Alliance, Ltd.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Chesapeake Charter School Alliance, Ltd.'s Response to Findings

Chesapeake Charter School Alliance, Ltd.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Chesapeake Charter School Alliance, Ltd.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

Leonardtown, Maryland
December 11, 2015



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Chesapeake Charter School Alliance, Ltd.

Report on Compliance for Each Major Federal Program

We have audited Chesapeake Charter School Alliance, Ltd.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Chesapeake Charter School Alliance, Ltd.'s major federal programs for the year ended June 30, 2015. Chesapeake Charter School Alliance, Ltd.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chesapeake Charter School Alliance, Ltd.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chesapeake Charter School Alliance, Ltd.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chesapeake Charter School Alliance, Ltd.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Chesapeake Charter School Alliance, Ltd. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Chesapeake Charter School Alliance, Ltd. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chesapeake Charter School Alliance, Ltd.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Charter School Alliance, Ltd.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Chesapeake Charter School Alliance, Ltd. as of and for the year ended June 30, 2015, and have issued our report thereon dated December 11, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ashley, Belsky and Associates
CERTIFIED PUBLIC ACCOUNTANTS

Leonardtown, Maryland
December 11, 2015

**CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major federal programs:

CFDA Number 10.766, Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

Section II - Findings – Financial Statement Audit

MATERIAL WEAKNESSES

2015-001 Cash Basis Accounting Records

Criteria: Internal controls should be in place that provide reasonable assurance that accrual basis accounting records are maintained as required by generally accepted accounting principles.

Condition: The accounting records for the year ending June 30, 2015 were maintained on the cash basis of accounting.

Context: During our audit, we proposed numerous adjustments to convert the accounting records from the cash basis to the accrual basis of accounting. Specifically, we proposed the following material adjustments: to record approximately \$705,000 of accrued expenses as of June 30, 2015, to record receivables of approximately \$14,000 as of June 30, 2015, to record approximately \$33,000 of fixed asset acquisitions for the year ending June 30, 2015, and to record payables to funders totaling approximately \$50,000 as of June 30, 2015.

Effect: Because of the failure to require accrual basis accounting records be maintained and sufficiently train personnel in charge of the accounting system, the financial reports reviewed by management and the Board of Directors are not prepared in accordance with generally accepted accounting procedures.

Cause: There are no procedures in place to require accrual basis accounting records be maintained by the personnel in charge of the accounting system. The personnel in charge of the accounting system have not received sufficient training to prepare financial records on the accrual basis of accounting.

Recommendation: Procedures should be implemented and training should be conducted to ensure that accrual adjustments are made to the accounting system on a regular and routine basis.

Views of Responsible Officials and Planned Corrective Actions: Individuals responsible for the accounting records at Chesapeake Charter School Alliance (“the Alliance”) do maintain a list of accounts receivable, notes receivable, prepaid expenses, fixed asset additions, accounts payable, accrued expenses,

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

credit cards payable and notes payable as of year end. These records are turned over to our hired accountant at year-end, and the accountant then recommends a list of adjustments to be made to convert the records from the cash basis to the accrual basis of accounting. At this time, the Alliance prefers handling the adjustments in this manner because we feel that fewer mistakes will be made. In addition, we plan to pursue hiring an accountant reporting to the Education Director.

2015-002 Financial Reporting Errors

Criteria: Internal controls should be in place that provide reasonable assurance that the Alliance's financial reporting aligns with St. Mary's County Public Schools (SMCPS) reporting.

Condition: The financial reports provided by the Alliance's primary funder, St. Mary's County Public Schools (SMCPS), contained errors that were not detected by the Alliance.

Context: During our audit we reconciled the final fiscal year 2015 report provided by the Alliance's primary funder, the St. Mary's County Public School System (SMCPS), to the Alliance's accounting records. As a result of our reconciliation, we noted that the expenditures reported by SMCPS were understated by approximately \$50,000. Prior to the detection of the error, the SMCPS final report showed that the Alliance was underspent by \$27,918 for fiscal year 2015 and SMCPS requested that the Alliance repay these funds to SMCPS. Once the omitted expenses were included the Alliance was actually overspent for fiscal year 2015 by approximately \$22,000 and no fiscal year 2015 funding was owed back to SMCPS.

Effect: Because of the failure to reconcile the SMCPS reports with the Alliance accounting records, revenue from SMCPS, which is based on total expenditures, may be misstated. Furthermore, management of the Alliance can not rely on the SMCPS reports to make budgetary and spending decisions as the amounts reported by SMCPS may be inaccurate.

Cause: There are no procedures in place to require a full reconciliation of the reports prepared by SMCPS to the accounting records of the Alliance.

Recommendation: Procedures should be implemented and training should be conducted to ensure that SMCPS reports are reconciled fully with the Alliance's accounting records on a regular and routine basis.

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Views of Responsible Officials and Planned Corrective Actions: At the end of each month, the financial secretary will run a Transaction Report for the School Operations Account from the Alliance's QuickBooks records. This report will be reconciled to the Detail Expenditure Status Report in the SMCPS e-Finance accounting system for the same time period. Any discrepancies will be resolved. Once the two reports are reconciled, the financial secretary will sign the report and file it. The financial secretary will also check the purchase orders to be sure items are received and will check on the invoices that are sent to the SMCPS Finance Office to be paid. Red check marks will be added on those items once the reports are reconciled. In addition, we plan to pursue hiring an accountant reporting to the Education Director.

Section III - Findings and Questioned Costs – Major Federal Award Programs Audit

NONE

**CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal or Pass-Through Grantor/Program Title	Federal CFDA Number	<u>Expenditures</u>
U.S. Department of Agriculture (USDA)		
Community Facilities Loans and Grants	10.766	\$ <u><u>7,170,400</u></u>
Total U.S. Department of Agriculture (USDA)		<u><u>7,170,400</u></u>
Total Federal Awards Expended		<u><u>7,170,400</u></u>

See Notes to the Schedule of Expenditures of Federal Awards.

**CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background and Scope of Audit – Chesapeake Charter School Alliance, Ltd. (the Alliance) was incorporated in the State of Maryland on May 19, 2004. The Alliance was formed for the following purposes:

- a. To educate and organize the citizens of Southern Maryland to understand, appreciate, and support establishment of a charter public school in Southern Maryland to be known as the Chesapeake Public Charter School ("the School").
- b. To inform the public in order to increase public awareness of the School.
- c. To plan and implement educational activities to promote understanding of the vision of the School among members of the Alliance.
- d. To conduct fund-raising activities solely for financial support of the School.
- e. To solicit and accept grants, donations and charitable contributions from various sources for such funding (including foundations and charitable and governmental agencies, businesses and individuals) to be maintained in accounts of the Alliance and to be used solely for the educational and the charitable purposes of the Alliance, and for the financial support of the proposed School, and not for any individual or commercial purposes.

The Alliance receives a substantial portion of its funding directly from the St. Mary's County (Maryland) Public School System.

Basis of Accounting - The schedule of expenditures of federal awards of the Alliance has been prepared using the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when incurred.

NOTE 2 - UNITED STATES DEPARTMENT OF AGRICULTURE LOAN

During the year ending June 30, 2015 the Alliance received a loan from the United States Department of Agriculture for \$7,191,491. For the year ending June 30, 2015 \$7,170,018 of the loan proceeds were used to purchase real property in Great Mills, Maryland that houses the Chesapeake Public Charter School and was previously leased to the Alliance and \$382 of the loan proceeds were used to pay real estate taxes associated with the real estate purchase. These expenditures of the loan proceeds are reported in the accompany schedule of expenditures of federal awards totaling \$7,170,400. Total proceeds from the loan were \$7,191,491. Unspent loan proceeds total \$21,091 as of June 30, 2015.

The 40 year loan bears interest at 3.50% and is payable in quarterly installments of \$85,896 beginning in September 2017. Annual interest only payments are due in June 2016 and June 2017 prior to the commencement of the regular quarterly payments described above. The loan is secured by the purchased real property in Great Mills, Maryland. The balance of the loan at June 30, 2015 was \$7,191,491. Maturities of the loan are as follows for the future years ending June 30:

2016	\$	-0-
2017		-0-
2018		92,793
2019		96,084
2020		99,491
Thereafter		<u>6,903,123</u>
Total		<u>\$7,191,491</u>