

**CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Chesapeake Charter School Alliance, Ltd. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Charter School Alliance, Ltd. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of functional expenses for the year ending June 30, 2017, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of Chesapeake Charter School Alliance, Ltd.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chesapeake Charter School Alliance, Ltd.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Chesapeake Charter School Alliance, Ltd.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.


Askey, Askey & Associates CPA, LLC

Leonardtown, Maryland
October 16, 2017

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Statements of Financial Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,147,783	\$ 1,025,328
Accounts Receivable	1,321	
Prepaid Expenses	<u>2,918</u>	<u>25,439</u>
Total Current Assets	1,152,022	1,050,767
USDA Reserves	68,836	34,381
Construction in Progress	66,500	
Property and Equipment (Net)	<u>6,874,114</u>	<u>7,034,036</u>
Total Assets	<u>\$ 8,161,472</u>	<u>\$ 8,119,184</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 790,912	\$ 722,820
Due to Funders	840	57,566
Note Payable-Current Portion	<u>92,793</u>	
Total Current Liabilities	884,545	780,386
Long-Term Liabilities		
Note Payable- Long Term Portion	<u>7,107,207</u>	<u>7,200,000</u>
Total Liabilities	<u>7,991,752</u>	<u>7,980,386</u>
Net Assets		
Unrestricted Net Assets	<u>169,720</u>	<u>138,798</u>
Total Liabilities and Net Assets	<u>\$ 8,161,472</u>	<u>\$ 8,119,184</u>

The Accompanying Notes to Financial Statements
Are an Integral Part of These Financial Statements

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Support and Revenue		
Government Support	\$ 4,085,169	\$ 3,807,794
Rental Income	235,306	223,365
Special Events and Fundraising	57,091	63,705
Contributions	30,127	21,830
Interest Income	425	508
Other Income	230	8,193
Total Support and Revenue	<u>4,408,348</u>	<u>4,125,395</u>
Expenses		
School Program	3,675,087	3,547,432
Management and General	497,940	403,142
Facility Rental	173,831	183,360
Fundraising	30,568	24,784
Total Expenses	<u>4,377,426</u>	<u>4,158,718</u>
Change in Net Assets	30,922	(33,323)
Net Assets at Beginning of Year	<u>138,798</u>	<u>172,121</u>
Net Assets at End of Year	<u>\$ 169,720</u>	<u>\$ 138,798</u>

The Accompanying Notes to Financial Statements
Are an Integral Part of These Financial Statements

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Change in Net Assets - Increase (Decrease)	\$ 30,922	\$ (33,323)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	159,922	159,761
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(1,321)	
Rent and Other Receivables		14,397
Prepaid Expenses	22,521	(25,439)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses Due to Funders	68,092 (56,726)	42,749 7,775
Net Cash Provided By Operating Activities	<u>223,410</u>	<u>165,920</u>
Cash Flows From Investing Activities		
Purchase of Property and Equipment		(23,779)
Investments in USDA Reserves	(34,455)	(34,381)
Investment in Construction in Progress	(66,500)	
Net Cash Used By Investing Activities	<u>(100,955)</u>	<u>(58,160)</u>
Cash Flows From Financing Activities		
Proceeds from Note Payable		8,509
Net Change in Cash and Cash Equivalents	122,455	116,269
Cash and Cash Equivalents at Beginning of Year	<u>1,025,328</u>	<u>909,059</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,147,783</u>	<u>\$ 1,025,328</u>
Supplemental Disclosures		
Cash Paid for Interest	\$ 252,000	\$ 251,874
Cash Paid for Income Taxes	\$ 595	\$ 31,500

The Accompanying Notes to Financial Statements
Are an Integral Part of These Financial Statements

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Notes to Financial Statements
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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.

Basis of Accounting

The financial statements of the Alliance have been prepared in accordance with U.S. generally accepted accounting principles on the accrual basis of accounting. Under this method, revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation and Contributions

Financial statement presentation follows the provisions of the Financial Accounting Standards Board. As such, the Alliance is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. There were no temporarily or permanently restricted net assets at June 30, 2017 and June 30, 2016. See Note 4 for a description of temporarily restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of money held in checking, savings, and certificate of deposit accounts.

The Alliance maintains bank accounts at financial institutions which are federally insured. At various times during the years ended June 30, 2017 and June 30, 2016, the Alliance maintained cash-in-bank balances that were in excess of the federally insured limits. There were no amounts held in excess of the federally insured amount at June 30, 2017. The amounts held in excess of the federally insured amount at June 30, 2016, was approximately \$62,000.

Property and Equipment

Property and equipment acquisitions over \$500 are capitalized and carried at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Gifts of long-lived assets such as land, buildings or equipment are recorded at their fair values and reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used.

Functional Allocation of Expenses

The costs of providing the various programs and other supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any specific function, but provide for the overall support and direction of the Alliance. For the years ending June 30, 2017 and June 30, 2016, the Alliance's program and supporting activities are as follows:

School Program – costs directly and indirectly related to the operation of the Chesapeake Public Charter School

Management and General – costs directly and indirectly related to the administrative functions of the Alliance

Facility Rental – costs directly and indirectly related to the rental of the Alliance's facilities to unrelated tenants

Fundraising – costs directly and indirectly related to the Alliance's fundraising efforts

Income Taxes

The Alliance was incorporated and is operated as a nonprofit organization. The Alliance has obtained a tax determination letter from the Internal Revenue Service stating that the Alliance is exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity. As such, the Alliance is exempt from paying federal income tax on any income other than unrelated business income. During the years ending June 30, 2017 and June 30, 2016, the Alliance earned unrelated business income of approximately \$75,000 and \$46,000, respectively from the debt-financed rental of a portion of its facilities. Total federal and state

income tax expense for the years ending June 30, 2017 and June 30, 2016, related to this unrelated business income was \$20,512 and \$11,219 respectively. The Alliance's federal information returns are generally subject to examination by the Internal Revenue Service for three years after the date they are filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. *PROPERTY AND EQUIPMENT*

Property and equipment at June 30, 2017 and June 30, 2016, consists of the following:

	Estimated Useful Lives in years	<u>2017</u>	<u>2016</u>
Land		\$ 956,838	\$ 956,838
Building	39	5,866,379	5,866,379
Building Improvements	39	370,581	370,581
Computer Equipment	5	<u> </u>	<u>602</u>
		7,193,798	7,194,400
Less Accumulated Depreciation		<u>(319,684)</u>	<u>(160,364)</u>
Property and Equipment, Net		<u>\$ 6,874,114</u>	<u>\$ 7,034,036</u>

Depreciation expense for the years ending June 30, 2017 and June 30, 2016, was \$159,922 and \$159,761, respectively.

During the year ending June 30, 2017, the Alliance incurred renovation expenses related to their building in the amount of \$66,500. The renovations have not been placed in service as of June 30, 2017, and are classified as construction in progress on the statement of financial position.

3. *RELATED PARTY TRANSACTIONS AND CONCENTRATIONS*

The Chesapeake Public Charter School ("the School") was founded by the Alliance. The School's teachers are employees of the St. Mary's County School Board. The School's vision is to provide a safe and joyful atmosphere which includes compassion and respect for others, and where students become critical thinkers, life-long learners and global citizens. The School's mission is to provide a rigorous, creative and diverse learning environment where everyone comes together to develop confident and self-motivated students. The St. Mary's County School Board provides significant government

funding to the Alliance. A significant decline in the level of funding, if it were to occur, could have a significant impact on the Alliance's operations. Government support to the Alliance from the St. Mary's County School Board was \$4,085,169 and \$3,807,794 for the years ending June 30, 2017 and June 30, 2016, respectively. At June 30, 2017 and June 30, 2016, the Alliance owed \$840 and \$57,566 respectively in excess funding to the St. Mary's County School Board. At June 30, 2017 and June 30, 2016, the Alliance owed \$767,992 and \$696,664, respectively in accounts payable and accrued expenses to the St. Mary's County School Board.

The School operates using assets to which the St. Mary's County School Board has reversionary title since the assets were purchased with St. Mary's County School Board funding. These assets have not been recorded in the financial statements as there is no means of estimating their fair market value or original cost basis.

4. TEMPORARILY RESTRICTED NET ASSETS

The Alliance has established a building fund to be used specifically for the costs of acquiring, expanding, and maintaining the current facilities of the School. Donations to the building fund are restricted by the donors to be used specifically for the building project. At June 30, 2017 and June 30, 2016, there were no temporarily restricted net assets related to the building fund.

5. NOTES PAYABLE

The Alliance has a note payable to the United States Department of Agriculture totaling \$7,200,000. The loan was used to purchase and is secured by real property in Great Mills, Maryland. The 40-year loan bears interest at 3.50%, is payable in quarterly installments of \$85,896 beginning in September 2017, and matures in June 2055. Annual interest only payments are due in June 2017 prior to the commencement of the regular quarterly payments described above. The balance of the loan at June 30, 2017 and June 30, 2016, was \$7,200,000. Maturities of the loan are as follows for the future years ending June 30:

2018	92,793
2019	96,084
2020	99,491
2021	103,019
Thereafter	<u>6,808,613</u>
Total	<u>\$7,200,000</u>

Total interest expense related to the above note payable was \$252,000 and \$251,874, for the years ending June 30, 2017 and June 30, 2016, respectively. The note payable agreement requires that the Alliance maintain and contribute to a reserve account. Annual deposits to the reserve account totaling \$34,358 must be made until the total deposits in the reserve account equal \$343,584. At June 30, 2017 and June 30, 2016, the reserve account balance was \$68,836 and \$34,381, respectively.

6. MINIMUM FUTURE LEASE RECEIPTS

The Alliance leases certain portions of their building to multiple tenants under various operating leases with terms ranging from one to three years. Aggregate future minimum lease payments to be received by the Alliance under the terms of these leases are as follows for the years ending June 30:

2018	\$ 113,738
2019	56,891
2020	55,275
2021	<u>4,606</u>
Total	<u>\$ 230,510</u>

7. SUBSEQUENT EVENTS

In August, 2017, the Alliance was awarded a Community Facility Grant from the U.S. Department of Agriculture in the amount of \$43,300. The grant requires the Alliance to contribute \$99,557 towards the purchase and installation of equipment and furniture.

Management has considered and evaluated subsequent events through October 16, 2017, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD.
Statement of Functional Expenses
For the Year Ended June 30, 2017
with Summarized Financial Information for the Year Ended June 30, 2016

	<u>2017</u>				<u>2016</u>	
	School Program	Management and General	Facility Rental	Fundraising	Total	Total
Payroll and Related Expenses	\$ 2,982,924	\$ 409,029	\$	\$ 15,347	\$ 3,407,300	\$ 3,156,776
Interest Expense	178,920	25,956	46,822	302	252,000	251,874
Facility Related Expenses	120,267	17,446	58,363	194	196,270	234,357
Depreciation Expense	113,544	16,472	29,714	192	159,922	159,761
Transportation Expense	149,060				149,060	137,250
Books, Materials, and Supplies	54,322				54,322	73,785
Professional Fees	11,446	20,576	13,625	519	46,166	50,033
School Programs	32,519				32,519	22,725
Insurance Expense	18,325	2,658	4,795	31	25,809	26,329
Income Tax Expense			20,512		20,512	11,219
Fundraising Expenses				13,983	13,983	21,784
Conferences, Conventions & Meetings	13,760				13,760	9,536
Miscellaneous Expenses		5,803			5,803	3,289
TOTAL	<u>\$ 3,675,087</u>	<u>\$ 497,940</u>	<u>\$ 173,831</u>	<u>\$ 30,568</u>	<u>\$ 4,377,426</u>	<u>\$ 4,158,718</u>



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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, 2017, 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 October 16, 2017.

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.

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. 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.

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 below, we identified a deficiency in internal control that we consider to be a significant deficiency.

Procurement policy for the school's operating funds

The Alliance is not consistently following the St. Mary's County Public School procurement policy for purchases with the School's Operating funds. The policy requires a purchase order to be used for all purchases over \$1,000. During our testing, we identified three instances in fiscal year 2017 where this policy was not followed. We recommend that the Alliance establishes an internal purchase order system, with the School System's approval, to meet the requirements of the Board of Education's procurement policy. The system should be reviewed and approved by St. Mary's County Public School system to ensure it is in compliance.

Chesapeake Charter School Alliance, Ltd.'s Response

The alliance agrees that there were three instances that purchase orders were not processed through the St. Mary's County Public School finance system for purchases that were over \$1,000. We are going to establish our own internal purchase order system for items that are not easily processed through the St. Mary's County Public School finance system. The procedure will be reviewed and approved by the St. Mary's County Public School system to ensure that we are in compliance with the procurement policy.

Compliance and Other Matters

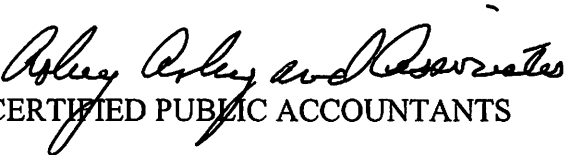
As part of obtaining reasonable assurance about whether Chesapeake Charter School Alliance, Ltd.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 above. 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
October 16, 2017