



Askey, Askey & Associates, CPA, LLC

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November 3, 2016

Ms. Jen Campbell, Treasurer
Chesapeake Charter School Alliance, Ltd.
20945 Great Mills Road, Suite 501
Lexington Park, MD 20653

Dear Ms. Campbell,

Enclosed please find:

- 1) Five bound copies and one unbound copy of financial statements for Chesapeake Charter School Alliance, Ltd. and OMB Circular A-133 Audit and for the year ended June 30, 2016.
- 2) A Communication With Those Charged With Governance letter.

Sincerely,

Catherine A. Askey, CPA, CVA, ABV

Enclosures



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Communication with Those Charged with Governance

October 3, 2016

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

We have audited the financial statements of Chesapeake Charter School Alliance, Ltd. for the year ended June 30, 2016, and have issued our report thereon dated October 3, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 24, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Chesapeake Charter School Alliance, Ltd. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2016. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. The attached Adjusting Journal Entry report lists the misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting

principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

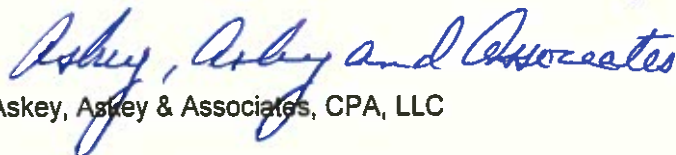
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Chesapeake Charter School Alliance, Ltd. and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Askey, Askey and Associates". The signature is written in a cursive, flowing style.

Askey, Askey & Associates, CPA, LLC

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

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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, 2016, 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.

Auditor's 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, 2016, 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, 2016 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 3, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 3, 2016

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Statements of Financial Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 1,025,328	\$ 909,059
Rent and Other Receivables		14,397
Prepaid Expenses	<u>25,439</u>	
Total Current Assets	1,050,767	923,456
USDA Reserves	34,381	
Property and Equipment (Net)	<u>7,034,036</u>	<u>7,170,018</u>
Total Assets	<u>\$ 8,119,184</u>	<u>\$ 8,093,474</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 722,820	\$ 680,071
Due to Funders	<u>57,566</u>	<u>49,791</u>
Total Current Liabilities	780,386	729,862
Long-Term Liabilities		
Note Payable	<u>7,200,000</u>	<u>7,191,491</u>
Total Liabilities	<u>7,980,386</u>	<u>7,921,353</u>
Net Assets		
Unrestricted Net Assets	138,798	156,727
Temporarily Restricted		<u>15,394</u>
Total Net Assets	<u>138,798</u>	<u>172,121</u>
Total Liabilities and Net Assets	<u>\$ 8,119,184</u>	<u>\$ 8,093,474</u>

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

CHESAPEAKE CHARTER SCHOOL ALLIANCE, LTD
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2016
with Summarized Financial Information for the Year Ended June 30, 2015

	2016	2015
Support and Revenue		
Government Support	\$ 3,807,794	\$ 3,759,254
Special Events and Fundraising	63,705	82,070
Contributions	21,830	25,779
Rental Income	223,365	7,793
Other Income	8,193	4,919
Interest Income	508	1,521
Total Support and Revenue	<u>4,125,395</u>	<u>3,881,336</u>
Expenses		
School Program	3,547,432	3,343,982
Management and General	403,142	438,170
Facility Rental	183,360	
Fundraising	24,784	34,755
Total Expenses	<u>4,158,718</u>	<u>3,816,907</u>
Change in Net Assets	(33,323)	64,429
Net Assets at Beginning of Year	<u>172,121</u>	<u>107,692</u>
Net Assets at End of Year	<u>\$ 138,798</u>	<u>\$ 172,121</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Change in Net Assets	\$ (33,323)	\$ 64,429
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	159,761	
(Increase) Decrease in Operating Assets:		
Rent and Other Receivables	14,397	(14,397)
Prepaid Expenses	(25,439)	4,953
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	42,749	679,855
Due to Funders	7,775	49,791
Net Cash Provided By Operating Activities	<u>165,920</u>	<u>784,631</u>
Cash Flows From Investing Activities		
Purchase of Property and Equipment	(23,779)	(33,445)
Investments in USDA Reserves	(34,381)	
Net Cash Used By Investing Activities	<u>(58,160)</u>	<u>(33,445)</u>
Cash Flows From Financing Activities		
Proceeds from Note Payable	8,509	56,918
Net Change in Cash and Cash Equivalents	116,269	808,104
Cash and Cash Equivalents at Beginning of Year	<u>909,059</u>	<u>100,955</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,025,328</u>	<u>\$ 909,059</u>
Supplemental Disclosures		
Property and Equipment Acquired by Loan		\$ 7,134,573
Cash Paid for Interest	\$ 251,874	
Cash Paid for Income Taxes	\$ 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, 2016

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. There were no permanently restricted net assets at June 30, 2016. See Note 5 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 year ended June 30, 2016, the Alliance maintained cash-in-bank balances that were in excess of the federally insured limits. The amount held in excess on the federally insured amount at June 30, 2016 was approximately \$62,000. There were no amounts held in excess of the federally insured amount at June 30, 2015.

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 year ending 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 year ending June 30, 2016, the Alliance earned unrelated business income of approximately \$46,000 from the debt-financed rental of a portion of its facilities. Total federal and state income tax expense for the year ending June 30, 2016

related to this unrelated business income was \$11,219. 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.

Reclassification of Prior Year Balances

Certain reclassifications of the prior year balances have been made to conform to the current year presentation. The reclassifications had no effect on net income or net assets for the year ending June 30, 2015.

2. *PROPERTY AND EQUIPMENT*

Property and equipment at June 30, 2016 and 2015 consists of the following:

	Estimated Useful Lives in years	<u>2016</u>	<u>2015</u>
Land		\$ 956,838	\$ 956,838
Building	39	5,866,379	5,866,379
Building Improvements	39	370,581	346,801
Computer Equipment	5	<u>602</u>	<u>602</u>
		7,194,400	7,170,620
Less Accumulated Depreciation		<u>(160,364)</u>	<u>(602)</u>
Property and Equipment, Net		<u>\$ 7,034,036</u>	<u>\$ 7,170,018</u>

Depreciation expense for the year ending June 30, 2016 was \$159,761. There was no depreciation expense for the year ended June 30, 2015.

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 \$3,807,794 and \$3,759,254 for the years ending June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015 the Alliance owed \$57,566 and \$49,791 in excess funding to St. Mary's County School Board. At June 30, 2016 and 2015 the Alliance owed \$696,664 and \$650,474 in accounts payable and accrued expenses to 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. OPERATING LEASE AND PURCHASE OF BUILDING

During the year ending June 30, 2015 the Alliance leased approximately 56,000 square feet of building, including classrooms, restrooms, office space and staff space, for the use of the Chesapeake Public Charter School in Lexington Park, Maryland. The space is used exclusively for the operation of the Chesapeake Public Charter School. Total rent expense incurred under this lease was \$475,521 for the year ending June 30, 2015. On June 26, 2015 the Alliance purchased this building from the landlord at a total capitalized cost of \$7,170,018.

5. 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, 2016 there were no temporarily restricted net assets related to the building fund. Total temporarily restricted net assets of the building fund were \$15,394 at June 30, 2015.

6. 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 described in Note 4. 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, 2016 and 2015 was \$7,200,000 and \$7,191,491, respectively. Maturities of the loan are as follows for the future years ending June 30:

2017	\$	-0-
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 \$251,874 for the year ending June 30, 2016. There was no interest expense for the year ending June 30, 2015. 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, 2016, the reserve account balance was \$34,381.

7. *MINIMUM FUTURE LEASE RECEIPTS*

Effective June 26, 2015 the Alliances leases certain portions of the purchased building described in Note 4 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:

2017	\$ 219,105
2018	<u>17,016</u>
Total	<u>\$ 236,121</u>

8. *SUBSEQUENT EVENTS*

Management has considered and evaluated subsequent events through October 3, 2016, 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, 2016

with Summarized Financial Information for the Year Ended June 30, 2015

	2016				2015
	School Program	Management and General	Facility Rental	Fundraising	Total
Payroll and Related Expenses	\$ 2,803,842	\$ 352,934	\$	\$	\$ 3,156,776
Interest Expense	190,240	10,629	51,005		251,874
Facility Related Expenses	157,658	8,751	67,948		234,357
Depreciation Expense	120,667	6,742	32,352		159,761
Transportation Expense	137,250				137,250
Books, Materials, and Supplies	73,785				73,785
Professional Fees	11,843	19,686	15,504	3,000	50,033
Income Tax Expense			11,219		11,219
Insurance Expense	19,886	1,111	5,332		26,329
School Programs	22,725				22,725
Fundraising Expenses				21,784	21,784
Conferences, Conventions & Meetings	9,536				9,536
Miscellaneous Expenses		3,289			3,289
Rent Expense					
TOTAL	\$ 3,547,432	\$ 403,142	\$ 183,360	\$ 24,784	\$ 4,158,718
					\$ 3,816,907



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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, 2016, 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 3, 2016.

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 material weakness.

Outsourcing of Accrual Adjustments to the Outside Auditors

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 \$780,000 of accrued expenses, to expense approximately \$252,000 of interest payments on the USDA loan, to reduce rental income and receivables by approximately \$42,000 related to July 2016 rents, to record approximately \$24,000 of fixed asset acquisitions, to record approximately \$160,000 of depreciation expense, and to record payables to funders totaling approximately \$58,000. The total effect of our proposed adjustments was a reduction in net income of approximately \$1,235,000 for the year ending June 30, 2016. 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 from the internal accounting system are not prepared in accordance with generally accepted accounting principles. We recommend that procedures be implemented to ensure that accrual adjustments are made to the accounting system on a regular and routine basis.

Chesapeake Charter School Alliance, Ltd.'s Response

During fiscal year 2016 and prior, Alliance accounting functions were handled by volunteer personnel. As a result of the significant financial transactions that occurred in fiscal year 2015, the Alliance, in agreement with the St. Mary's County Public Schools Board of Education, identified the need for professional personnel to perform the internal accounting function. Efforts were made to hire an accountant prior to the end of fiscal year 2016. However, due to delays in the hiring process, the accountant position was not added until the beginning of fiscal year 2017.

Despite her later than anticipated start, the accountant and the treasurer were able prepare the audit schedules (accruals, prepaid expenses, payables) for the auditor in advance of the audit. Now that the Chesapeake Public Charter School has hired an accountant, the accrual adjustments will be made to the accounting system on a regular and routine basis going forward.

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 3, 2016