MIDDLEBURG COMMUNITY CHARTER SCHOOL

(A COMPONENT UNIT OF LOUDOUN COUNTY VIRGINIA PUBLIC SCHOOLS)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016
MIDDLEBURG COMMUNITY CHARTER SCHOOL
(A COMPONENT UNIT OF LOUDOUN COUNTY VIRGINIA PUBLIC SCHOOLS)

BOARD MEMBERS

Chairman
Robert Liscouski

David Quanbeck

Janelle Stewart

Susana Calley

Richa Badami

David Larson
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INDEPENDENT AUDITORS’ REPORT

TO THE BOARD OF THE MIDDLEBURG COMMUNITY CHARTER SCHOOL
(A COMPONENT UNIT OF LOUDOUN COUNTY VIRGINIA PUBLIC SCHOOLS)
MIDDLEBURG, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Middleburg Community Charter School (a component unit of Loudoun County Virginia Public Schools) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements as listed in the table of contents.

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 opinions 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; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audits of Authorities, Boards, and Commissions, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors’ 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 opinions.

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Middleburg Community Charter School, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Other Matters

Required Supplementary Information

Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Middleburg Community Charter School’s basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic 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 September 30, 2016, on our consideration of Middleburg Community Charter School’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 Middleburg Community Charter School’s internal control over financial reporting and compliance.

Staunton, Virginia
September 30, 2016
BASIC FINANCIAL STATEMENTS
GOVERNMENT-WIDE FINANCIAL STATEMENTS
### Governmental Activities

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 52,719</td>
</tr>
<tr>
<td>Due from other governmental units</td>
<td>54,353</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 107,072</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 18,538</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$ 18,538</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET POSITION</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>$ 88,534</td>
</tr>
<tr>
<td>Total net position</td>
<td>$ 88,534</td>
</tr>
</tbody>
</table>

The notes to financial statements are an integral part of this statement.
THIS PAGE LEFT BLANK INTENTIONALLY
## MIDDLEBURG COMMUNITY CHARTER SCHOOL
### (A Component Unit of Loudoun County Virginia Public Schools)

### Statement of Activities
**For the Year Ended June 30, 2016**

<table>
<thead>
<tr>
<th>Functions/Programs</th>
<th>Expenses</th>
<th>Charges for Services</th>
<th>Operating Grants and Contributions</th>
<th>Capital Grants and Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Governmental activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>$1,960,710</td>
<td>-</td>
<td>$1,892,037</td>
<td>-</td>
</tr>
<tr>
<td>Total governmental activities</td>
<td>$1,960,710</td>
<td>-</td>
<td>$1,892,037</td>
<td>-</td>
</tr>
</tbody>
</table>

General revenues:
- Unrestricted revenues from use of money and property
- Miscellaneous
- Total general revenues
- Change in net position
- Net position - beginning
- Net position - ending

The notes to financial statements are an integral part of this statement.
### Net (Expense) Revenue and Changes in Net Position

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (68,673)</td>
<td>$ (68,673)</td>
</tr>
<tr>
<td>$ (68,673)</td>
<td>$ (68,673)</td>
</tr>
<tr>
<td>$ 7,187</td>
<td>$ 7,187</td>
</tr>
<tr>
<td>71,996</td>
<td>71,996</td>
</tr>
<tr>
<td>$ 79,183</td>
<td>$ 79,183</td>
</tr>
<tr>
<td>$ 10,510</td>
<td>$ 10,510</td>
</tr>
<tr>
<td>78,024</td>
<td>78,024</td>
</tr>
<tr>
<td>$ 88,534</td>
<td>$ 88,534</td>
</tr>
</tbody>
</table>
FUND FINANCIAL STATEMENTS
Balance Sheet  
Governmental Funds  
June 30, 2016

### ASSETS

<table>
<thead>
<tr>
<th>General Fund</th>
</tr>
</thead>
</table>
| Cash and cash equivalents | $52,719  
| Due from governmental units | $54,353  
| **Total assets** | **$107,072**

### LIABILITIES AND FUND BALANCE

<table>
<thead>
<tr>
<th>General Fund</th>
</tr>
</thead>
</table>
| Accounts payable | $18,538  
| **Total liabilities** | **$18,538**

<table>
<thead>
<tr>
<th>Fund balance</th>
</tr>
</thead>
</table>
| Unassigned | $88,534  
| **Total fund balance** | **$88,534**

<table>
<thead>
<tr>
<th>General Fund</th>
</tr>
</thead>
</table>
| **Total liabilities and fund balance** | **$107,072**

The notes to financial statements are an integral part of this statement.
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

<table>
<thead>
<tr>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
</tr>
<tr>
<td>Revenue from use of money and property $7,187</td>
</tr>
<tr>
<td>Donations and contributions 71,996</td>
</tr>
<tr>
<td>Contribution from Loudoun County Public Schools 1,774,416</td>
</tr>
<tr>
<td>Revenue from the Commonwealth 117,621</td>
</tr>
<tr>
<td><strong>Total revenues</strong> $1,971,220</td>
</tr>
<tr>
<td>Expenditures:</td>
</tr>
<tr>
<td>Education:</td>
</tr>
<tr>
<td>Instructional $1,447,882</td>
</tr>
<tr>
<td>Attendance and health services 21,674</td>
</tr>
<tr>
<td>Transportation 112,817</td>
</tr>
<tr>
<td>Operation and maintenance 376,399</td>
</tr>
<tr>
<td>Food services 1,938</td>
</tr>
<tr>
<td><strong>Total expenditures</strong> $1,960,710</td>
</tr>
<tr>
<td>Excess (deficiency) of revenues over expenditures $10,510</td>
</tr>
<tr>
<td>Fund balance, beginning of year $78,024</td>
</tr>
<tr>
<td>Fund balance, end of year $88,534</td>
</tr>
</tbody>
</table>

The notes to financial statements are an integral part of this statement.
## Statement of Fiduciary Net Position

**Fiduciary Funds**

**June 30, 2016**

<table>
<thead>
<tr>
<th>AGENT</th>
<th>FUND</th>
<th>ASSET</th>
<th>LIABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>Cash and cash equivalents</strong></td>
<td><strong>Amounts held for student activities</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$894</td>
<td>$894</td>
</tr>
</tbody>
</table>

*The notes to financial statements are an integral part of this statement.*
NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and Purpose:

The County of Loudoun, Virginia Public Schools entered into an agreement with Middleburg Community Charter School (the School) dated May 19, 2014, to operate a charter school pursuant to the provisions of Article 1.2 of Chapter 13 of Title 22.1, Code of Virginia. It is incorporated as a Virginia nonprofit corporation with an effective date of January 16, 2014. Virginia Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. The initial term of the contract is for three years expiring on June 30, 2017. Loudoun County Virginia Public Schools will provide the School with an annualized per pupil cost amount based on the average daily membership.

Charter schools are funded similarly to other public schools in that the state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other public schools. Because a charter schools receives local, state and federal funds they may not charge tuition.

B. Basis of Accounting:

The School’s financial statements have been prepared in conformity with generally accepted accounting principles generally accepted in the United States as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

C. Financial Reporting Entity:

A separate report is prepared for Loudoun County Virginia Public Schools (LCPS) which includes all agencies, boards, Schools, and authorities over which LCPS exercises or has the ability to exercise oversight authority. The School is a discretely presented component unit of LCPS and is included in the financial statements of LCPS.

D. Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School does not have any business-type activities to report.

The statement of net position is designed to display the financial position of the School (governmental activities). The net position of a government will be broken down into three categories – 1) net investment in capital assets; 2) restricted; and, 3) unrestricted.

The statement of activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).
NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Government-wide and Fund Financial Statements: (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

E. Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

The School’s government-wide financial statements (i.e., the statement of net position and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide statement of activities reflects both the gross and net cost per functional category (education) which is otherwise being supported by general government revenues (certain intergovernmental revenues, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (education).

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The School’s fiduciary fund is presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.
E. Measurement Focus, Basis of Accounting, and Financial Statements Presentation: (Continued)

In the fund financial statements, financial transactions and accounts of the School are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The School reports the following governmental funds.

a. General Fund

The General Fund is the primary operating fund of the School. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from local contributions, state and federal distributions, contributions, and interest income.

2. Fiduciary Funds (Trust and Agency Funds)

Fiduciary Funds (Trust and Agency Funds) account for assets held by the School in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds, which consist of the Student Activity Fund. These funds utilize the accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

3. Cash and Cash Equivalents

The School’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. At June 30, 2016, the School’s cash and cash equivalents were deposited in one financial institution. All balances were insured under the Federal Deposit Insurance Corporation (FDIC) insurance limit of $250,000 per financial institution.

The School has no investments as of June 30, 2016.

4. Use of Estimates

The preparation of financial statements in conformity with U.S. 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.
NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation: (Continued)

5. **Capital Assets**

   The School has no capital assets. All land, building and equipment is owned and reported by Loudoun County Virginia Public Schools.

6. **Net Position**

   Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources.

7. **Deferred Outflows/Inflows of Resources**

   In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any deferred outflows of resources as of June 30, 2016.

   In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School does not have any deferred inflows of resources as of June 30, 2016.

8. **Fund Equity**

   The School reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

   - Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
   - Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
   - Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
   - Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
   - Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.
NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statements Presentation: (Continued)

8. Fund Equity (continued)

When fund balance resources are available for a specific purpose in more than one classification, it is the School’s policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

9. Income Taxes

The School qualifies as a tax exempt organization under Section 501(c) (3) of the Internal Revenue Code. In addition, the School qualifies for the charitable contribution deduction under section 170(b) (1) (A) (ii) and has been classified as an organization that is not a private foundation under Section 509 (a) (2).

Accounting principles generally accepted in the United States of America require management to evaluate the tax positions taken by the School and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken or expected to be taken by the School, and has concluded that as of June 30, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or (asset) or disclosure in the financial statements.

10. Budgetary Comparison Statement

The School is not required to adopt a legally binding budget; therefore no budgetary comparison statement of the General Fund has been presented.

NOTE 2—DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other governmental units at June 30, 2016 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loudoun County Virginia Public Schools</td>
<td>$54,353</td>
</tr>
<tr>
<td>Total</td>
<td>$54,353</td>
</tr>
</tbody>
</table>
NOTE 3—ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses at June 30, 2016 are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable to vendors</td>
<td>$ 18,538</td>
</tr>
<tr>
<td>Total</td>
<td>$ 18,538</td>
</tr>
</tbody>
</table>

NOTE 4—LEASES:

The facilities used to provide educational services were provided under a current operating lease arrangement with Loudoun County Virginia Public Schools. Under the terms of the lease, the School pays rent of $1 per year on the lease to LCPS which expired June 30, 2016, but was renewed through June 30, 2017. The lease is subject to additional renewal through June 30, 2017. The fair market rental value of $286,756 is recorded in the financial statements as rent expenditures and an offsetting contribution from Loudoun County Virginia Public Schools.

NOTE 5—CONCENTRATIONS:

During the year ended June 30, 2016, 90% of operating revenues were received from per-pupil funding provided by Loudoun County Virginia Public Schools. The per-pupil rate is set annually by LCPS.

During the year ended June 30, 2016, Loudoun County Virginia Public Schools paid on the School’s behalf $1,158,288 for salaries, fringe benefits, transportation and education materials. These costs are recorded in the accompanying financial statements. However, Loudoun County Virginia Public Schools is legally responsible for these employees and accordingly disclosures regarding pension and retirement expenditures and liabilities are not recorded in the accompanying financial statements of Middleburg Community Charter School.
SUPPLEMENTARY INFORMATION
MIDDLEBURG COMMUNITY CHARTER SCHOOL  
(A Component Unit of Loudoun County Virginia Public Schools)  

Statement of Changes in Assets and Liabilities  
Agency Fund  
For the Year Ended June 30, 2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Student Activity Fund:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,552</td>
<td>$23,823</td>
<td>$24,481</td>
<td>$894</td>
</tr>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts held for student activities</td>
<td>$1,552</td>
<td>$23,823</td>
<td>$24,481</td>
<td>$894</td>
</tr>
</tbody>
</table>
COMPLIANCE
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 THE MIDDLEBURG COMMUNITY CHARTER SCHOOL (A COMPONENT UNIT OF LOUDOUN COUNTY VIRGINIA PUBLIC SCHOOLS)
MIDDLEBURG, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, used by the comptroller General of the United States; and the Specifications for Audits of Authorities, Boards, and Schools, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Middleburg Community Charter School (a component unit of Loudoun County Virginia Public Schools) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School’s basic financial statements, and have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Middleburg Community Charter School’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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middleburg Community Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Middleburg Community Charter School’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 first paragraph of this section 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 responses, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies (2016-001, 2016-002, and 2016-003) described in the accompanying schedule of findings and responses to be material weaknesses.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middleburg Community Charter School’s financial statements are free of 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.

Middleburg Community Charter School’s Response to Findings

Middleburg Community Charter School’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Middleburg Community Charter School’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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Co., Accountants

Staunton, Virginia
September 30, 2016
2016-001  Cash: Bank Reconciliation Review and Approval

Condition:  Currently, bank reconciliations are prepared by the Chairman of the Board who is also responsible for other cash functions. The reconciliation is not reviewed by a person independent of the reconciliation process.

Cause:  The School has very limited staff and no formal policies or procedures that require monthly review of bank reconciliations by an independent individual.

Criteria:  An effective internal control system over bank reconciliations provides reasonable assurance for the safeguarding of assets and the reliability of financial information.

Effect:  Current practices provide an ineffective system of cash control, because they permit the possibility of fraudulent activities due to lack of an adequate segregation of duties.

Recommendation:  It is recommended that an individual independent of cash receipt and disbursement activities review the bank reconciliations for unusual items and document their approval by initialing the reconciliations.

Management's Response:  Management agrees with this finding and has implemented steps to mitigate these risks in the future. These steps include appointing an independent CPA to prepare the bank reconciliations and the Board will review all bank reconciliations monthly.

2016-002  Segregation of Duties: Cash Disbursements, Payroll and General Ledger

Condition:  Presently, a single individual prepares and signs checks, performs all payroll duties and maintains the general ledger.

Cause:  Due to the limited number of people working in the office, many critical duties are combined and given to the Chairman of the Board.

Criteria:  To the extent possible, duties should be segregated to serve as a check and balance on the individual and maintain the best internal control system possible.

Effect:  There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal controls over financial reporting.

Recommendation:  It is recommended that different employees perform the separate duties of signing checks, processing cash receipts and disbursements, and maintaining books of original entry.

Management's Response:  Management agrees with this finding and has implemented steps to mitigate these risks in the future. These steps include appointing an independent CPA to prepare the bank reconciliations and the Board will review all bank reconciliations monthly.
Condition:  Currently, all cash disbursements are prepared by the Chairman of the Board who is also responsible for other cash functions. The disbursements are not approved by someone independent from the check writing process.

Cause:  Due to the limited number of people working in the office, many critical duties are combined and given to the Chairman of the Board.

Criteria:  An effective internal control system over cash disbursements provides reasonable assurance for the safeguarding of assets and the reliability of financial information.

Effect:  This provides an ineffective system of internal control over cash disbursements, because it permits the possibility of fraudulent activities due to lack of an adequate segregation of duties.

Recommendation:  It is recommended that an individual independent of the check writing process approve all supporting documentation and be added as an authorized signer for the bank accounts so that checks will require dual signatures before being processed.

Management's Response:  Management agrees with this finding and has implemented steps to mitigate these risks in the future. These steps include appointing an independent CPA to prepare the bank reconciliations and the Board will review all bank reconciliations monthly.