



MOT CHARTER SCHOOL
(A Component Unit of the State of Delaware)
MIDDLETOWN, DELAWARE

FINANCIAL STATEMENTS

JUNE 30, 2017

MOT CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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(A Component Unit of the State of Delaware)

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INDEPENDENT AUDITOR'S REPORT

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September 29, 2017

Board of Directors
MOT Charter School
Middletown, Delaware

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the MOT Charter School ("the School"), Middletown, Delaware, (a component unit of the State of Delaware) as of and for the year ended June 30, 2017, 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.

Auditor's 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 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.

Board of Directors
MOT Charter School

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 the MOT Charter School as of June 30, 2017, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the MOT Charter School's 2016 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated September 28, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 11, budgetary comparison schedule - governmental funds on page 35, schedule of the School's proportionate share of the net pension liability on page 36, and schedule of School contributions on page 37 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Directors
MOT Charter School

The combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are the responsibility of management and were derived from and relate 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 combining balance sheet - general fund, combining statement of revenues, expenditures, and changes in fund balances - general fund, and schedule of expenditures by natural classification - governmental funds are 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 29, 2017 on our consideration of the 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 the School's internal control over financial reporting and compliance.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

Our discussion and analysis of the MOT Charter School's ("the School") financial performance provides an overview of the School's financial activities for the year ended June 30, 2017, which is the School's fifteenth full year of operation. Please read it in conjunction with the Independent Auditors' Report on pages 1 - 3 and the School's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

The School's net position increased by \$741,678 and general revenues accounted for \$12.4 million, or 94 percent of total revenues.

USING THIS ANNUAL FINANCIAL REPORT

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

REPORTING THE SCHOOL AS A WHOLE

The Statement of Net Position and Statement of Activities

One of the most important questions asked about School finances is, "Is the School better or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net position and changes in them. The change in net position provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as student enrollment and facility conditions in arriving at a conclusion regarding the overall health of the School.

REPORTING THE SCHOOL'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Our analysis of the School's major funds and fund financial statements begins on page 14 and provides detailed information about the most significant funds, not the School as a whole. Some funds are required to be established by State statute, while other funds are established by the School to help manage money for particular purposes and compliance with various grant provisions. The School's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

Governmental Funds

Most of the Charter School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the basic financial statements. Activities relating to capital assets, long-term debt, and compensated absences are the primary reconciling items.

Fiduciary Funds

The School is fiduciary for its student activity assets that, due to a fiduciary arrangement, can be used only for student activities. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position on page 18. These activities are excluded from the School's other financial statements because the assets are not utilized by the School to finance its operations.

ENTITY-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,463,490 at the close of the fiscal year. Approximately 84 percent of the School's net position consists of those resources invested in capital assets or restricted for capital projects due to the high school expansion project. The School uses capital assets to provide services; consequently, these assets are not available for future spending.

A comparative net position analysis of fiscal years 2017 and 2016 follows:

**Table 1
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016**

	Governmental Activities	
	2017	2016
ASSETS		
Current assets	\$ 7,421,807	\$ 6,486,310
Capital assets, net of depreciation	27,874,013	26,078,664
TOTAL ASSETS	35,295,820	32,564,974
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	518,808	434,928
Deferred pension expenses	1,962,832	278,490
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,481,640	713,418
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 37,777,460	\$ 33,278,392

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

Table 1
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016

(cont'd)	Governmental Activities	
	2017	2016
LIABILITIES		
Current liabilities	\$ 2,322,435	\$ 17,489,313
Noncurrent liabilities	26,912,849	7,634,463
TOTAL LIABILITIES	<u>29,235,284</u>	<u>25,123,776</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension contributions	78,686	432,804
NET POSITION		
Net investment in capital assets	4,307,592	3,627,597
Restricted	370,845	398,756
Unrestricted	3,785,053	3,695,459
TOTAL NET POSITION	<u>8,463,490</u>	<u>7,721,812</u>
TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 37,777,460</u>	<u>\$ 33,278,392</u>

The School's net position increased \$741,678 and is mainly attributed to the School's investment in capital assets.

A comparative analysis of changes in net position for fiscal years 2017 and 2016 follows:

Table 2
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Governmental Activities	
	2017	2016
REVENUES		
Program revenues:		
Charges for services	\$ 221,514	\$ 192,334
Operating grants and contributions	382,872	231,436
Capital grants and contributions	200,990	50,740
General revenues:		
Charges to school districts	2,249,403	1,831,568
State aid not restricted	9,758,105	8,371,686
Earnings on cash and investments	77,076	39,582
Other	308,468	247,576
TOTAL REVENUES	<u>13,198,428</u>	<u>10,964,922</u>

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

Table 2
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(cont'd)	Governmental Activities	
	2017	2016
EXPENSES		
Instructional services	7,619,446	6,017,073
Supporting services:		
Operation and maintenance of facilities	1,703,482	1,558,795
Administrative services	1,511,375	1,257,340
Transportation	928,471	645,120
Food service	466,594	426,711
Interest on long-term debt	227,382	634,933
TOTAL EXPENSES	<u>12,456,750</u>	<u>10,539,972</u>
CHANGE IN NET POSITION	<u>\$ 741,678</u>	<u>\$ 424,950</u>

This year was the fifteenth full year of operations for the School. The increase in revenues this year is mainly attributed to the increase in the number of students with the addition of the eleventh grade class for the new high school.

Governmental Activities

Net position of the School's governmental activities increased by \$741,678, and unrestricted net position reflects a positive balance of \$1,317,457.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenues for governmental activities. General revenues that include charges to school districts, investment earnings, and state entitlements must support the net cost of the School's programs.

	2017		2016	
	Total Cost	Net Cost	Total Cost	Net Cost
Governmental Activities:				
Instructional services	\$ 7,619,446	\$ 7,325,971	\$ 6,017,073	\$ 5,808,165
Operation and maintenance of facilities	1,703,482	1,502,492	1,558,795	1,558,795
Administrative services	1,511,375	1,511,375	1,257,340	1,257,340
Transportation	928,471	928,471	645,120	645,120
School lunch service	466,594	155,683	426,711	161,109
Interest on long-term debt	227,382	227,382	634,933	634,933
Total Governmental Activities	<u>\$ 12,456,750</u>	<u>\$ 11,651,374</u>	<u>\$ 10,539,972</u>	<u>\$ 10,065,462</u>

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$11,651,374 of support from general revenues, or 88 percent of total revenues.

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$5,468,659. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2017.

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Fund Balances:			
Restricted	\$ 370,845	\$ 398,756	\$ (27,911)
Committed	2,467,596	2,112,429	355,167
Assigned	208,432	603,478	(395,046)
Unassigned	<u>2,421,786</u>	<u>2,168,882</u>	<u>252,904</u>
 Total Fund Balances	 <u>\$ 5,468,659</u>	 <u>\$ 5,283,545</u>	 <u>\$ 185,114</u>

Governmental Funds

The School's governmental fund balance increased because the current year revenues and proceeds from financing (loan proceeds) exceeded the current year expenditures, including the repayment of the construction loan associated with the high school project. The information that follows assists in illustrating the financial activities and balance of the governmental funds.

	<u>2017</u>	<u>2016</u>
REVENUES:		
Charges to school districts	\$ 2,249,403	\$ 1,831,568
State aid	9,758,105	8,371,686
Federal aid	276,307	158,168
Earnings on cash and investments	77,076	39,582
Contributions and other local sources	526,626	298,316
Food service	<u>310,911</u>	<u>265,602</u>
 TOTAL	 <u>\$ 13,198,428</u>	 <u>\$ 10,964,922</u>

The largest portion of governmental fund expenditures was for the payment of the principal on the construction loan at the settlement of the permanent financing on the new high school, as well as salaries and other employment costs. The School is a service entity and, as such, is labor intensive.

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

	Governmental Funds	
	2017	2016
EXPENDITURES BY OBJECT:		
Salaries	\$ 6,068,382	\$ 5,035,735
Employment costs	2,900,070	2,343,013
Travel	3,798	7,343
Contractual service	193,612	191,865
Professional development	29,778	38,082
Public utilities services	247,434	273,028
Insurance	50,814	46,077
Transportation - buses	928,471	645,120
Land/building/facilities	162,995	169,540
Supplies and materials	353,351	301,014
Related services	238,336	238,806
Student activities	108,515	88,293
Capital outlays - equipment	9,220	266,127
Capital outlays - property	2,570,969	1,066,202
Debt service - principal	16,307,553	249,399
Debt service - interest	262,923	623,232
TOTAL	<u>\$ 30,436,221</u>	<u>\$ 11,582,876</u>

Expenses exceeded operating revenues during the fiscal year due to expenses related to the high school project. These expenses were funded by the proceeds from the mortgage on the new high school, resulting in an increase in fund balance.

GOVERNMENTAL FUND BUDGET INFORMATION

The School's budget is prepared in accordance with the modified accrual basis of accounting. The most significant budgeted fund is the General Fund. Formal budgetary integration is employed as a management control device throughout the year with monthly reports to the Board of Directors.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 35.

REVENUES

1. Charges to school districts are higher than expected because:
 - a. There were changes in student composition and district reimbursement rates, as well as the funds from the Christina School district due to a legal settlement.
2. Charges for services are higher than expected because:
 - a. The growing cafeteria program produced additional revenues as well as expenses.
3. State revenues are higher than expected because:
 - a. There were changes in student and staff composition.
 - b. The school received funds for the Teacher Leader Pilot.

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

4. Federal revenues are higher than expected because:
 - a. Federal revenues are received after the expense is incurred. Some of the funds were from last year's grant that were spent at the beginning of this fiscal year.
5. Earnings on cash and investments are higher than expected because:
 - a. Interest rates increased over the course of the year.
6. Contributions are larger than expected because:
 - a. The School received funds from the Welfare Foundation to be used for the new high school gymnasium project.
7. Other local revenues are larger than expected because:
 - a. Flow-through funds for student activities were not listed in the budget as they are reserved and not used for the general operation of the School.

EXPENSES

1. Salaries and other employment costs are higher than expected because:
 - a. There were changes in staff composition.
 - b. Contracted teachers were hired as part-time employees, which is offset by lower contracted services expenses.
 - c. Salary increases were approved in December.
2. Travel was lower than expected because:
 - a. There were less students participating in national level competitions.
3. Contracted services are higher than expected because:
 - a. Contracted teachers were hired as part-time employees, which is offset by higher salary and other employment costs.
4. Utilities are lower than expected because:
 - a. The School realized significant savings in electricity at the high school by joining the state plan for electricity supply.
5. Transportation is higher than expected because:
 - a. The School agreed to pay the payments that were withheld from the bus company for performance deficiencies last year.
 - b. State funding was higher than anticipated, which is tied to the contracted payment due.
 - c. Activities transportation costs were higher than anticipated.
6. Supplies and materials are lower than expected because:
 - a. The School aggressively managed stationary supplies and other classroom supplies.
7. Related services are higher than expected because:
 - a. There were additional cafeteria expenses that are offset by additional revenues.

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONT'D)

8. Student activities are higher than expected because:
 - a. Additional expenses related to flow through accounts like athletics, field trips, and clubs, which are mostly offset by additional revenues.
9. Capital outlays – equipment are higher than expected because:
 - a. The purchase and installation of a new projection system in the high school cafeteria area.
10. Capital outlays – property are higher than expected because:
 - a. Expenses related to construction of the high school gymnasium, which are partially offset by loan proceeds.
11. Debt is higher than expected because:
 - a. The School paid off the construction loan associated with the high school project.

As the School begins its sixteenth year of operations, it will continue to use its historical trends based on prior year experience and anticipated future performance based on conservative estimates to better estimate revenues and certain budget line items.

CAPITAL ASSETS

The School has \$27,874,013 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$2,580,189. These acquisitions were for furniture and equipment, and costs related to gymnasium portion of the high school expansion project. Detailed information regarding capital asset activity is included in the notes to the basic financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the School has total debt outstanding of \$23,566,421. This debt is a direct result of the construction of the School facilities located in Middletown, Delaware. This debt is split between the Wilmington Savings Fund Society and the U.S. Department of Agriculture, and the School buildings are held as collateral against these loans.

FACTORS EXPECTED TO HAVE AN EFFECT ON FUTURE OPERATIONS

Fiscal year 2017 was the fifteenth year of operation as a functioning school. The financial model the School has developed is based on the funding formula currently in effect under the Delaware Charter School Law. If the funding formula for charter schools changes, adjustments to the underlying assumptions of the model will have to be made.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Business Manager at (302) 376-5125.

BASIC FINANCIAL STATEMENTS

**MOT CHARTER SCHOOL
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

	Governmental Activities	
	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	\$ 6,667,593	\$ 6,138,555
Loan proceeds receivable	740,879	344,799
Due from other governments	13,335	2,956
Total Current Assets	7,421,807	6,486,310
Noncurrent Assets:		
Land	1,232,830	1,232,830
Construction-in-progress	2,248,507	154,472
Capital assets, net of depreciation	24,392,676	24,691,362
Total Noncurrent Assets	27,874,013	26,078,664
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	518,808	434,928
Deferred pension expense	1,962,832	278,490
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,481,640	713,418
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 37,777,460	\$ 33,278,392
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 571,440	\$ 212,031
Retainage payable	211,693	15,447
Accrued salaries and related costs	1,161,907	965,442
Unearned revenue	8,108	9,845
Interest payable	3,906	39,447
Notes payable	365,381	16,247,101
Total Current Liabilities	2,322,435	17,489,313
Noncurrent Liabilities:		
Compensated absences	124,577	111,725
Notes payable	23,201,040	6,203,966
Net pension liability	3,587,232	1,318,772
Total Noncurrent Liabilities	26,912,849	7,634,463
TOTAL LIABILITIES	29,235,284	25,123,776
DEFERRED INFLOWS OF RESOURCES		
Deferred pension expense	78,686	432,804
TOTAL DEFERRED INFLOWS OF RESOURCES	78,686	432,804
NET POSITION		
Net investment in capital assets	4,307,592	3,627,597
Restricted	370,845	398,756
Unrestricted	3,785,053	3,695,459
TOTAL NET POSITION	8,463,490	7,721,812
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 37,777,460	\$ 33,278,392

The accompanying notes are an integral part of these financial statements.

**MOT CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)**

	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
	2017	2016	2017		2016
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (7,619,446)	\$ -	\$ 293,475	\$ -	
Support services:					
Operation and maintenance of facilities	(1,703,482)	-	-	200,990	
Administrative services	(1,511,375)	-	-	-	
Transportation	(928,471)	-	-	-	
Food service	(466,594)	221,514	89,397	-	
Interest on long-term debt	(227,382)	-	-	-	
TOTAL GOVERNMENTAL ACTIVITIES	<u><u>\$ (12,456,750)</u></u>	<u><u>\$ 221,514</u></u>	<u><u>\$ 382,872</u></u>	<u><u>\$ 200,990</u></u>	
GENERAL REVENUES					
Charges to school districts			2,249,403	1,831,568	
State aid not restricted to specific purposes			9,758,105	8,371,686	
Earnings on cash and investments			77,076	39,582	
Other local sources			308,468	247,576	
TOTAL GENERAL REVENUES			<u><u>12,393,052</u></u>	<u><u>10,490,412</u></u>	
CHANGE IN NET POSITION			741,678	424,950	
NET POSITION, BEGINNING OF YEAR, RESTATED			<u><u>7,721,812</u></u>	<u><u>7,296,862</u></u>	
NET POSITION, END OF YEAR			<u><u>\$ 8,463,490</u></u>	<u><u>\$ 7,721,812</u></u>	

The accompanying notes are an integral part of these financial statements.

**MOT CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

(With Summarized Comparative Data for June 30, 2016)

	General Fund	Capital Projects Fund	Total Governmental Funds
			2017
ASSETS			
Cash and cash equivalents	\$ 6,066,825	\$ 600,768	\$ 6,667,593
Loan proceeds receivable	-	740,879	344,799
Due from other governments	13,335	-	2,956
TOTAL ASSETS	\$ 6,080,160	\$ 1,341,647	\$ 7,421,807
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 42,255	\$ 529,185	\$ 571,440
Retainage payable	-	211,693	15,447
Accrued salaries and related costs	1,161,907	-	965,442
Unearned revenue	8,108	-	9,845
TOTAL LIABILITIES	1,212,270	740,878	1,953,148
FUND BALANCES:			
Restricted	-	370,845	398,756
Committed	2,446,104	21,492	2,112,429
Assigned	-	208,432	603,478
Unassigned	2,421,786	-	2,168,882
TOTAL FUND BALANCES	4,867,890	600,769	5,468,659
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,080,160	\$ 1,341,647	\$ 7,421,807

The accompanying notes are an integral part of these financial statements.

**MOT CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
JUNE 30, 2017**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,468,659

The total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statements of net position. 27,874,013

Long-term liabilities applicable to the governmental activities are not due and payable in the current year and, accordingly, are not reported as fund liabilities.

Interest payable	\$ (3,906)	
Compensated absences	(124,577)	
Notes payable	(23,566,421)	
Net pension liability	(3,587,232)	(27,282,136)

Deferred inflows and outflows of resources related to the School's net pension liability are based on the differences between actuarially determined actual and expected investment returns, changes in the actuarially determined proportion of the School's amount of the total pension liability, and pension contributions made after the measurement date of the net pension liability. These amounts will be amortized over the estimated remaining average service life of the employees.

Deferred outflows - pension contributions	518,808	
Deferred outflows - pension expense	1,962,832	
Deferred inflows - pension expense	(78,686)	2,402,954

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 8,463,490

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017
(With Summarized Comparative Data for the Year Ended June 30, 2016)

	General Fund	Capital Projects Fund	Total Governmental Funds	
			2017	2016
REVENUES				
Charges to school districts	\$ 2,249,403	-	\$ 2,249,403	\$ 1,831,568
Food service revenue	310,911	-	310,911	265,602
State aid	9,758,105	-	9,758,105	8,371,686
Federal aid	276,307	-	276,307	158,168
Earnings on cash and investments	76,731	345	77,076	39,582
Contributions	17,168	200,990	218,158	50,740
Other local sources	308,468	-	308,468	247,576
TOTAL REVENUES	12,997,093	201,335	13,198,428	10,964,922
EXPENDITURES				
Current:				
Instructional services	7,381,427	-	7,381,427	6,135,262
Operation and maintenance of facilities	997,689	-	997,689	913,483
Administrative services	1,483,338	28,037	1,511,375	1,257,340
Transportation	928,471	-	928,471	645,120
Food services	466,594	-	466,594	426,711
Capital outlays:				
Equipment	9,220	-	9,220	266,127
Property	-	2,570,969	2,570,969	1,066,202
Debt service:				
Principal	335,590	15,971,963	16,307,553	249,399
Interest	262,923	-	262,923	623,232
TOTAL EXPENDITURES	11,865,252	18,570,969	30,436,221	11,582,876
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,131,841	(18,369,634)	(17,237,793)	(617,954)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	17,422,907	17,422,907	2,876,508
Transfers in	-	545,262	545,262	508,312
Transfers out	(545,262)	-	(545,262)	(508,312)
TOTAL OTHER FINANCING SOURCES	(545,262)	17,968,169	17,422,907	2,876,508
NET CHANGES IN FUND BALANCES	586,579	(401,465)	185,114	2,258,554
FUND BALANCES, BEGINNING OF YEAR	4,281,311	1,002,234	5,283,545	3,024,991
FUND BALANCES, END OF YEAR	\$ 4,867,890	\$ 600,769	\$ 5,468,659	\$ 5,283,545

The accompanying notes are an integral part of these financial statements.

**MOT CHARTER SCHOOL
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 185,114

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$500 are capitalized, and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 2,580,189	
Depreciation expense	<u>(784,840)</u>	1,795,349

The issuance of long-term debt (e.g., notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Note issuance	(17,422,907)	
Payment of note principal	16,307,553	
Accrued interest	<u>35,541</u>	(1,079,813)

Some expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported as expenditures in the governmental funds:

Compensated absences	(12,852)
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Pension expenses in the statement of activities differ from the amount reported in the governmental funds because pension expenses are recognized on the statement of activities based on the School's proportionate share of the expenses of the cost-sharing pension plan, whereas pension expenditures are recognized in the governmental funds when a requirement to remit contributions to the plan exists.

(146,120)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	<u>\$ 741,678</u>
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The accompanying notes are an integral part of these financial statements.

**MOT CHARTER SCHOOL
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2017 AND 2016**

	Student Activities Fund	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 73,885	\$ 59,979
LIABILITIES		
Due to student groups	\$ 73,885	\$ 59,979
NET POSITION		
Unrestricted	-	-
TOTAL LIABILITIES AND NET POSITION	\$ 73,885	\$ 59,979

The accompanying notes are an integral part of these financial statements.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

The MOT Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The 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. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. An initial charter is granted for a three-year period, renewable every five years thereafter.

Charter schools are funded similarly to other public schools in that 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 school districts. Because a charter school receives local, state, and federal funds, they may not charge tuition.

The financial statements of the MOT Charter School ("the School") have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the MOT Charter School are described below.

Reporting Entity

The School is a special purpose government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the entity-wide financial statements. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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 School 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. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Charges to the school districts, state appropriations, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- **Capital Projects Fund.** Accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

Additionally, the School reports the following fund type:

- **Student Activities Agency Fund** (a fiduciary fund). Accounts for assets held on behalf of student groups.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amounts reported as program revenues include 1) charges to students for special fees, supplies, or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., current portion of interfund loans) or "advances from/to other funds" (i.e., the noncurrent portion of interfund loans). At June 30, 2017, the School had no such activity.

Advances between funds, when present, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets

Capital assets, which include buildings and improvements, and furniture and equipment, are reported in the entity-wide financial statements. The School defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	7 years
Buildings and improvements	40 years
Equipment	7 years
Computers	3 - 5 years

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of net position includes 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 future periods and so will not be recognized as an outflow of resources (expenses) until then. The School currently has two items

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

that qualify for reporting in this category. The School reports deferred pension contributions resulting from pension contributions subsequent to the measurement date of the net pension liability and certain other items which represent differences related to changes in the net pension liability which will be amortized over future periods. In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents a source of net position that applies to future periods. The School reports certain items which represent differences related to changes in the net pension liability which will be amortized over future periods.

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation – Twelve-month employees can accumulate up to 30 days of vacation. Any days in excess of 30 are dropped as of July 1 of each year. Employees are paid for unused vacation upon termination and retirement at the current rate of pay.

Sick Leave – Sick leave allowances are as follows: teachers shall be allowed 10 days of sick leave per year, and annual employees earn one day of sick leave for each month worked. Any unused sick days shall be accumulated to the employee's credit. Compensation for accumulated sick days is received when employees (a) qualify and apply for state pension and are paid at a rate of 50 percent of the *per diem* rate of pay not to exceed 90 days; or (b) in the case of death, when payment is made to the employee's estate at a rate of one day's pay for each day of unused sick leave not to exceed 90 days.

Earned unused sick leave may be transferred to another state agency if the employee remains a state employee or is later rehired as a state employee. Sick time does not accrue while an employee is on leave of absence, unless otherwise required by law.

The School has recorded the local portion of the compensated absences liability, which was \$124,577 at June 30, 2017.

Fund Equity

Fund balance will be displayed in the following classification (if applicable) depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation, or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by formal action of the Board of Directors. The Board is the highest level of decision-making authority for the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Head of School may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the School considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board or Head of School has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining portions of net position are reflected as unrestricted. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and then unrestricted resources as they are needed.

Income Tax Status

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. The School qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

organization that is not a private foundation under Section 509(a)(1). The School did not engage in any unrelated business activities during the fiscal year. Management believes more likely than not that its tax-exempt status and tax positions will be sustained if examined by authorities.

Use of Estimates in the Preparation of Financial Statements

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Comparative Data

Comparative total data for the prior year is presented in the basic financial statements to provide an understanding of changes in the School's financial position and operations. That comparative data is not at the level of detail required for a presentation in conformity with generally accepted accounting principles and has been restated and reclassified, as needed, from the presentation in the School's June 30, 2016 basic financial statements to be comparative with the current year preparation.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2017, the School has a cash equivalent balance of \$6,741,478. Of that amount, \$5,948,085 is part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

At June 30, 2017, the reported amount of the School's deposits not held with the State Treasurer's Office was \$793,393, and the bank balance was \$794,827. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$544,827 was exposed to custodial credit risk because it was uninsured.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	<u>Balances</u> 7/01/16	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> 6/30/17
Governmental Activities				
General capital assets not being depreciated:				
Land	\$ 1,232,830	\$ -	\$ -	\$ 1,232,830
Construction-in-progress	<u>154,472</u>	<u>2,560,125</u>	<u>466,090</u>	<u>2,248,507</u>
 Total general capital assets not being depreciated	 <u>1,387,302</u>	 <u>2,560,125</u>	 <u>466,090</u>	 <u>3,481,337</u>
General capital assets being depreciated:				
Buildings and improvements	27,123,688	476,934	-	27,600,622
Equipment	1,115,587	9,220	149,118	975,689
Furniture and fixtures	<u>535,852</u>	<u>-</u>	<u>196,313</u>	<u>339,539</u>
 Total general capital assets being depreciated	 28,775,127	 486,154	 345,431	 28,915,850
Accumulated depreciation	<u>(4,083,765)</u>	<u>(784,840)</u>	<u>(345,431)</u>	<u>(4,523,174)</u>
 Total general capital assets being depreciated, net	 <u>24,691,362</u>	 <u>(298,686)</u>	 <u>-</u>	 <u>24,392,676</u>
 Governmental Activities, Net	 <u>\$26,078,664</u>	 <u>\$ 2,261,439</u>	 <u>\$ 466,090</u>	 <u>\$27,874,013</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional activities	\$ 79,047
Operation and maintenance of facilities	<u>705,793</u>
	 <u>\$ 784,840</u>

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT

WSFS and USDA Loans

At its initiation, MOT Charter School borrowed \$6,000,000 through the USDA's Rural Development program in order to construct a one-story, 55,000 square foot building. This program consisted of a \$3,000,000 direct loan from the USDA at a fixed interest rate of 4.75 percent and a \$3,000,000 loan from WSFS guaranteed by the USDA at an interest rate of prime plus one percent. As of June 30, 2017, the interest rate on the WSFS loan was 5.06 percent. The balance of the original \$3,000,000 USDA loan was transferred to a new loan and reamortized over a total of 40 years (10 additional years) at a fixed interest rate of 4.75 percent. This provided an annual cash flow savings of \$35,940, allowing the School to obtain an additional loan in October 2011 in the amount of \$2,775,000 at an interest rate of 3.75 percent to construct the 19,000 square foot addition consisting of a gymnasium and classroom space. As of June 30, 2017, the School had drawn down the entire \$2,775,000 (\$2,564,596 in fiscal year 2012 and \$210,404 in fiscal year 2013), and the outstanding balance was \$2,644,886. In September 2012, the School obtained an additional \$200,000 loan from the USDA at an interest rate of 3.375 percent for overruns with the construction of the gymnasium and classroom space. As of June 30, 2017, the outstanding balance was \$192,476. These loans mature January 2023 through September 2052.

During the year ended June 30, 2015, the School obtained two new loans from Wilmington Savings Fund Society. The first makes available \$1,000,000 to the School for the purchase of furniture, fixtures, and equipment for the construction of the new high school facility. At June 30, 2017, the balance of this loan was \$702,871. Interest accrues at LIBOR + 2.50 percent; principal payments started in 2016, and maturity is set for October 2020. The second loan makes available \$15,725,000 for the purchase of property and the construction of the new high school building. This construction loan had no stated interest rate. During the year ended June 30, 2017, the School had drawn the remaining funds available.

On July 1, 2016, the School obtained \$16,000,000 in USDA loans (Loan 97-06 for \$9,000,000 and Loan 97-07 for \$7,000,000) and used the proceeds to pay off the outstanding balance of the construction loan and the related issuance costs. These loans accrue interest at 2.75 percent and mature on July 1, 2056. As of June 30, 2017, \$16,000,000 was the outstanding balance on these loans.

On December 22, 2016, the School obtained \$1,600,000 in financing through the USDA for the construction of a gymnasium. The loan accrues interest at 2.375 percent and will mature on December 22, 2046. At June 30, 2017 the School had drawn down \$620,093 of funds and had recorded loan proceeds receivable of \$740,879, representing additional construction costs to be drawn down against the loan. The total amount of the liability of the USDA loan at June 30, 2017 was \$1,360,972.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

An analysis of debt service requirements to maturity on these obligations follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 365,381	\$ 729,512
2019	399,592	715,337
2020	645,886	698,807
2021	660,246	599,111
2022	571,138	580,979
2023 - 2027	2,543,567	2,874,625
2028 - 2032	2,752,024	2,610,536
2033 - 2037	3,226,952	2,120,030
2038 - 2042	3,651,509	1,577,077
2043 - 2047	3,454,305	1,045,771
2048 - 2052	3,559,955	534,520
2053 - 2057	1,735,866	84,286
	<u>\$ 23,566,421</u>	<u>\$ 14,170,591</u>

Interest expense for the year ended June 30, 2017 was \$227,382.

A schedule of changes in debt is as follows:

	<u>Outstanding 7/01/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/17</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Notes payable	\$22,451,067	\$17,422,907	\$16,307,553	\$23,566,421	\$ 365,381
Compensated absences	111,725	12,852	-	124,577	-
Total Governmental Activities	<u>\$22,562,792</u>	<u>\$17,435,759</u>	<u>\$16,307,553</u>	<u>\$23,690,998</u>	<u>\$ 365,381</u>

NOTE 5 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan ("the Plan"), which is a cost-sharing, multiple-employer defined benefit public employees' retirement system ("the State PERS") defined by the Delaware Code.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

The State of Delaware General Assembly is responsible for setting benefits and contributions, and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board of Pension Trustees ("the Board").

The following are brief descriptions of the Plan in effect as of June 30, 2017. For a more complete description, please refer to the Delaware Employees' Pension Plan Comprehensive Annual Financial Report. Separately issued financial statements for the Plan may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904; by calling 1-800-722-7300; or by visiting the PERS website at www.delawarepensions.com.

Plan Description and Eligibility

The State Employees' Pension Plan covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan: 1) employees hired prior to January 1, 2012, and 2) employees hired on or after January 1, 2012.

Benefits Provided

Service Benefits

Final average monthly compensation (employees hired on or after January 1, 2012 may not include overtime in pension compensation) multiplied by 2.0 percent and multiplied by years of credited service prior to January 1, 1997, plus final average monthly compensation multiplied by 1.85 percent and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three periods of twelve consecutive months of compensation.

Vesting

Employees hired before January 1, 2012 vest in the plan after five years of credited service. Employees hired on or after January 1, 2012 vest in the plan after ten years of credited service.

Retirement

Employees hired before January 1, 2012 may retire at age 62 with five years of credited service; at age 60 with 15 years of credited service; or after 30 years of credited service at any age. Employees hired on or after January 1, 2012 may retire at age 65 with at least 10 years of credited service; at age 60 with 20 years of credited service; or after 30 years of credited service at any age.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Disability Benefits

Disability benefits for those employees hired before January 1, 2012 are offered using the same calculations as the Service Benefits described above. Employees in this program must have five years of credited service. In lieu of disability pension benefits, over 90 percent of the members of this plan opted into a Disability Insurance Program offered by the State effective January 1, 2006. Employees hired on or after January 1, 2012 are also included in the Disability Insurance Program.

Survivor and Burial Benefits

In the event of the death of a member of the Plan, the eligible survivor receives 50 percent of the benefits received under the pension (or 75 percent with a three percent reduction of the benefit). If the employee is an active member of the Plan with at least five years of credited service, the eligible survivor receives 75 percent of the benefit the active employee would have received at age 62.

Burial benefits are established at \$7,000 per plan member.

Contributions

Member Contributions

Employees hired before January 1, 2012 contribute three percent of earnings in excess of \$6,000. Employees hired on or after January 1, 2012 contribute five percent of earnings in excess of \$6,000.

Employer Contributions

Employer contributions are determined by the Board. For the year ended June 30, 2017, the rate of the employer contribution was 9.58 percent of covered payroll. The School's contribution to PERS for the year ended June 30, 2017 was \$518,808.

PRI Contribution

All reporting units participating in the State PERS make contributions to a PRI fund which accumulates resources to fund ad hoc post-retirement increases granted by the General Assembly. The increases are funded over a five-year period from the PRI fund. The allocation of the contribution from the PRI fund to the Pension Trust is a reduction of the net pension liability of each participating employer.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Pension Liability and Expense, and Deferred Outflows and Inflows of Resources

At June 30, 2016, the School reported a liability of \$3,587,232 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by rolling forward the Plan's total pension liability as of June 30, 2015 to June 30, 2016. The School's proportion of the net pension liability was calculated based on the actual contributions made during the measurement period in proportion to the total of all employer contributions made during the measurement period. At June 30, 2016, the School's proportion was 0.2380 percent, which was an increase of 0.0398 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$664,928. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 1,118,063	\$ -
Changes in assumptions	332,184	
Changes in proportions	512,585	-
Difference between actual and expected experience	-	78,686
Contributions subsequent to the date of measurement	<u>518,808</u>	<u>-</u>
	<u>\$ 2,481,640</u>	<u>\$ 78,686</u>

An amount of \$518,808 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2016) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts will be reported as deferred outflows of resources and deferred inflows of resources related to pensions, and will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2018	\$ 432,732
2019	432,732
2020	432,732
2021	432,732
2022	<u>153,218</u>
	<u>\$ 1,884,146</u>

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Actuarial Assumptions

The total pension liability as of the June 30, 2016 measurement date was determined by an actuarial valuation as of June 30, 2015, and update procedures were used to roll forward the total pension liability to June 30, 2016. These actuarial valuations used the following actuarial assumptions, applied to all periods:

- Investment return – 7.2 percent, including inflation of 3.0 percent
- Salary increases – 3.5 percent to 11.5 percent, including inflation of 3.0 percent
- Cost-of-living adjustments – ad hoc

The total pension liabilities are measured based on the assumptions pertaining to interest rates, inflation rates, and employee demographic behavior in future years. The assumptions used were based on the results of an actuarial experience study conducted in 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the actual experience deviates, the larger the impact on future financial statements.

Mortality rates were based on the Sex Distinct RP-2000 Combined Mortality Table projected to 2015 using scale AA for Males or Females, as appropriate, for mortality improvement.

Projected benefit payments do not include the effects of projected ad hoc cost-of-living adjustments (“ad hoc COLAs”), as they are not substantively automatic. The primary considerations relevant to making this determination include the historical patterns of granting the changes and the consistency in the amounts of the changes.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by an asset allocation percentage, which is based on the nature and mix of current and expected plan investments, and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Asset Allocation</u>
Domestic equity	5.7%	34.0%
International equity	5.7%	14.7%
Fixed income	2.0%	25.0%
Alternative investments	7.8%	20.9%
Cash and equivalents	0.0%	5.4%

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Discount Rate

The discount used to measure the total pension liability was 7.2 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates determined by the Board, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate of 7.2 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.2 percent) or one percentage point higher (8.2 percent) than the current rate.

	1% Decrease 6.2%	Current Rate Discount Rate 7.2%	1% Increase 8.2%
School's proportionate share of the net pension liability	\$ 6,233,822	\$ 3,587,232	\$ 1,360,853

Pension Plan Fiduciary Net Position

Detailed information about PERS' fiduciary net position is available in PERS Comprehensive Annual Financial Report, which can be found on the Plan's website at www.delawarepensions.com.

NOTE 6 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage, or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants

The School receives significant financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts and federal agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

Construction Commitment

As of June 30, 2017, anticipated construction commitments are as follows:

Name	Contract Amount	Completed through 6/30/16	Remaining Amount
Gymnasium Project	\$ 2,370,481	\$ 2,138,425	\$ 232,056

In addition, the School has incurred \$110,082 in additional costs not under a formal contract associated with the gymnasium project.

NOTE 8 FUND BALANCES

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Committed:			
Capital improvements	\$ 2,446,104	\$ 21,492	\$ 2,467,596
Restricted	-	370,845	370,845
Assigned	-	208,432	208,432
Unassigned	<u>2,421,786</u>	<u>-</u>	<u>2,421,786</u>
Total Fund Balances	<u>\$ 4,867,890</u>	<u>\$ 600,769</u>	<u>\$ 5,468,659</u>

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$	251,494
Employment costs	\$	187,955
Contractual services	\$	2,388
Insurance	\$	5,318
Transportation – buses	\$	107,720
Land/building/facilities	\$	9,715
Related services	\$	40,321
Student activities	\$	71,515
Capital outlay - equipment	\$	9,220
Capital outlay - property	\$	2,534,969
Debt service - principal	\$	15,967,656

The excess expenditures were covered by revenues exceeding expected amounts and the proceeds from debt issued.

NOTE 10 INTERFUND TRANSFERS

The interfund transfer from the General Fund to the Capital Projects Fund in the amount of \$545,262 was to pay for expenditures related to the construction of the gymnasium project.

NOTE 11 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 29, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**MOT CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges to school districts	\$ 2,073,267	\$ 2,073,267	\$ 2,249,403	\$ 176,136
Food service revenue	183,577	183,577	310,911	127,334
State aid	9,520,065	9,520,065	9,758,105	238,040
Federal aid	225,765	225,765	276,307	50,542
Earnings on cash and investments	24,000	24,000	77,076	53,076
Contributions	10,000	10,000	218,158	208,158
Other local sources	-	-	308,468	308,468
TOTAL REVENUES	<u>12,036,674</u>	<u>12,036,674</u>	<u>13,198,428</u>	<u>1,161,754</u>
EXPENDITURES				
Current:				
Salaries	5,816,888	5,816,888	6,068,382	(251,494)
Employment costs	2,712,115	2,712,115	2,900,070	(187,955)
Travel	11,000	11,000	3,798	7,202
Contractual services	191,224	191,224	193,612	(2,388)
Professional development	31,695	31,695	29,778	1,917
Public utilities service	300,858	300,858	247,434	53,424
Insurance	45,496	45,496	50,814	(5,318)
Transportation - buses	820,751	820,751	928,471	(107,720)
Land/building/facilities	153,280	153,280	162,995	(9,715)
Supplies and materials	387,395	387,395	353,351	34,044
Related services	198,015	198,015	238,336	(40,321)
Student activities	37,000	37,000	108,515	(71,515)
Capital outlays:				
Equipment	-	-	9,220	(9,220)
Property	36,000	36,000	2,570,969	(2,534,969)
Debt service:				
Principal	339,897	339,897	16,307,553	(15,967,656)
Interest	718,616	718,616	262,923	455,693
TOTAL EXPENDITURES	<u>11,800,230</u>	<u>11,800,230</u>	<u>30,436,221</u>	<u>(18,635,991)</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>236,444</u>	<u>236,444</u>	<u>(17,237,793)</u>	<u>(17,474,237)</u>
OTHER FINANCING SOURCES				
Proceeds from financing	-	-	17,422,907	17,422,907
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>17,422,907</u>	<u>17,422,907</u>
NET CHANGES IN FUND BALANCE	<u>\$ 236,444</u>	<u>\$ 236,444</u>	185,114	<u>\$ (51,330)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>5,283,545</u>	
FUND BALANCE, END OF YEAR			<u>\$ 5,468,659</u>	

NOTE: The School's budget is presented on the modified accrual basis of accounting.

**MOT CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>MEASUREMENT DATE</u>	
	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
School's proportion of the net pension liability	0.2380%	0.1982%
School's proportion of the net pension liability - dollar value	\$ 3,587,232	\$ 1,318,772
School's covered employee payroll	\$ 4,539,959	\$ 3,696,998
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	79.01%	35.67%
Plan fiduciary net position as a percentage of the total pension liability	84.11%	92.67%
		0.1717%
		632,204
		2,717,333

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

**MOT CHARTER SCHOOL
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF SCHOOL CONTRIBUTIONS**

<u>CONTRIBUTIONS</u>	<u>JUNE 30, 2017</u>	<u>JUNE 30, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 518,808	\$ 434,928	\$ 353,433
Contributions in relation to the contractually required contribution	<u>518,808</u>	<u>434,928</u>	<u>353,433</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 5,415,532	\$ 4,539,959	\$ 3,696,998
Contributions as a percentage of covered-employee payroll	9.58%	9.58%	9.56%

In accordance with GASB Statement No. 68, this schedule has been prepared prospectively as the above information for the preceding years is not readily available. This schedule will accumulate each year until sufficient information to present a ten-year trend is available.

SUPPLEMENTARY INFORMATION

**MOT CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2017**

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and investments	\$ 4	\$ 6,066,821	-	\$ 6,066,825
Due from other governments	-	-	13,335	13,335
Due from other funding source	-	13,335	-	13,335
TOTAL ASSETS	\$ 4	\$ 6,080,156	\$ 13,335	\$ 6,093,495
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	-	\$ 42,255	-	\$ 42,255
Unearned revenue	-	8,108	-	8,108
Accrued salaries and related costs	-	1,161,907	-	1,161,907
Due to other funding source	-	-	13,335	13,335
TOTAL LIABILITIES	-	1,212,270	13,335	1,225,605
FUND BALANCES:				
Committed	-	2,446,104	-	2,446,104
Unassigned	4	2,421,782	-	2,421,786
TOTAL FUND BALANCES	4	4,867,886	-	4,867,890
TOTAL LIABILITIES AND FUND BALANCES	\$ 4	\$ 6,080,156	\$ 13,335	\$ 6,093,495

**MOT CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	-	2,249,403	-	2,249,403
Food service revenue	-	221,514	89,397	310,911
State aid	9,758,105	-	-	9,758,105
Federal aid	-	-	276,307	276,307
Earnings on cash and investments	-	76,731	-	76,731
Contributions	-	17,168	-	17,168
Other local sources	-	308,468	-	308,468
TOTAL REVENUES	<u>9,758,105</u>	<u>2,873,284</u>	<u>365,704</u>	<u>12,997,093</u>
EXPENDITURES				
Current:				
Instructional services	5,814,638	1,290,482	276,307	7,381,427
Operation and maintenance of facilities	861,562	136,127	-	997,689
Administrative services	1,310,133	173,205	-	1,483,338
Transportation	764,246	164,225	-	928,471
Food services	165,370	211,827	89,397	466,594
Capital outlays:				
Equipment	-	9,220	-	9,220
Debt service:				
Principal	280,542	55,048	-	335,590
Interest	218,827	44,096	-	262,923
TOTAL EXPENDITURES	<u>9,415,318</u>	<u>2,084,230</u>	<u>365,704</u>	<u>11,865,252</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>342,787</u>	<u>789,054</u>	<u>-</u>	<u>1,131,841</u>
OTHER FINANCING USES				
Transfers Out	(348,101)	(197,161)	-	(545,262)
TOTAL OTHER FINANCING USES	<u>(348,101)</u>	<u>(197,161)</u>	<u>-</u>	<u>(545,262)</u>
NET CHANGE IN FUND BALANCES	(5,314)	591,893	-	586,579
FUND BALANCES, BEGINNING OF YEAR	5,318	4,275,993	-	4,281,311
FUND BALANCES, END OF YEAR	<u>\$ 4</u>	<u>\$ 4,867,886</u>	<u>\$ -</u>	<u>\$ 4,867,890</u>

**MOT CHARTER SCHOOL
 SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017**

EXPENDITURES

Current:

Salaries	\$ 6,068,382
Employment costs	2,900,070
Travel	3,798
Contractual services	193,612
Professional development	29,778
Public utility services	247,434
Insurance	50,814
Transportation - buses	928,471
Land/building/facilities	162,995
Supplies and materials	353,351
Related services	238,336
Student activities	108,515

Capital outlays:

Equipment	9,220
Property	2,570,969

Debt service:

Principal	16,307,553
Interest	262,923

TOTAL EXPENDITURES

\$ 30,436,221

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

September 29, 2017

Board of Directors
MOT Charter School
Middletown, Delaware

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 the governmental activities, each major fund, and the aggregate remaining fund information of the MOT Charter School ("the School"), Middletown, Delaware, as of and for the year ended June 30, 2017, 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 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 School'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 over financial reporting 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
MOT Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barbacane, Thornton & Company LLP
BARBACANE, THORNTON & COMPANY LLP