



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

FINANCIAL STATEMENTS

JUNE 30, 2015

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

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INDEPENDENT AUDITOR'S REPORT

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September 17, 2015

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 MOT Charter School (the "School"), Middletown, Delaware, (a component unit of the State of Delaware) as of and for the year ended June 30, 2015, 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 School'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 School'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 MOT Charter School as of June 30, 2015, 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.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, MOT Charter School has adopted the requirements of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." These statements modify the accounting for the School's pensions. As a result, the beginning governmental activities net position has been restated. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited MOT Charter School's 2014 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 16, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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, the budgetary comparison information on page 34, and the schedule of proportionate share of net pension liability and contributions on page 35 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 MOT Charter 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.

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 17, 2015 on our consideration of MOT 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 MOT Charter 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 MOT Charter School's financial performance provides an overview of the School's financial activities for the year ended June 30, 2015, which is the School's thirteenth full year of operation. Please read it in conjunction with the Independent Auditor's 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 \$1,853,369, and general revenues accounted for \$8.82 million or 94 percent of total revenues.

During the year ended June 30, 2015, the School adopted the requirements of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68." The objective of GASB Statement No. 68 is to improve the accounting and financial reporting of state and local governments for pensions. GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provision on the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

By implementing the requirements of GASB Statement No. 62 and GASB Statement No. 71, the School recognized a beginning deferred outflow of \$259,777 and a beginning net pension liability of \$1,757,828. These adjustments reduced the School's beginning net position by \$1,498,051.

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.

MOT CHARTER SCHOOL

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

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.

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 exceeded liabilities by \$7,398,768 at the close of the fiscal year. Approximately 93 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 currently underway. 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 2015 and 2014 follows:

MOT CHARTER SCHOOL

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

**Table 1
STATEMENT OF NET POSITION**

	Governmental Activities	
	2015	2014
ASSETS		
Current assets	\$ 5,314,349	\$ 4,617,969
Noncurrent assets	25,556,977	9,315,035
TOTAL ASSETS	<u>30,871,326</u>	<u>13,933,004</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	438,746	259,777
 LIABILITIES AND NET POSITION		
Current liabilities	16,008,708	1,015,648
Noncurrent liabilities	6,864,200	7,631,734
TOTAL LIABILITIES	<u>22,872,908</u>	<u>8,647,382</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred pension contributions	1,038,396	-
 NET POSITION		
Net investment in capital assets	5,820,711	3,390,871
Restricted	1,026,883	3,719,477
Unrestricted (Deficit)	551,174	(1,564,949)
TOTAL NET POSITION	<u>\$ 7,398,768</u>	<u>\$ 5,545,399</u>

This year was the thirteenth 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 first ninth grade class for the new high school.

A comparative analysis of changes in net position for fiscal years 2015 and 2014 follows:

**Table 2
STATEMENT OF CHANGES IN NET POSITION**

	Governmental Activities	
	2015	2014
REVENUES		
Program revenues:		
Charges for services	\$ 171,498	\$ 111,568
Operating grants and contributions	244,617	162,958
Capital grants and contributions	153,028	166,689
General revenues:		
Charges to school districts	1,409,224	1,037,056
State aid not restricted	7,215,529	5,808,669
Earnings on cash and investments	21,873	19,356
Other	170,654	108,975
TOTAL REVENUES	<u>9,386,423</u>	<u>7,415,271</u>

MOT CHARTER SCHOOL

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

Table 2
STATEMENT OF CHANGES IN NET POSITION

	Governmental Activities	
	2015	2014
EXPENSES		
Instructional services	4,435,400	4,291,185
Supporting services:		
Operation and maintenance of facilities	828,621	719,176
Administrative services	1,082,114	824,929
Transportation	590,433	534,814
Food service	320,938	240,665
Interest on long-term debt	275,548	258,329
TOTAL EXPENSES	7,533,054	6,869,099
CHANGES IN NET POSITION	\$ 1,853,369	\$ 546,172

Governmental Activities

Net position of the School's governmental activities increased by \$1,853,369, and unrestricted net position reflects a positive balance of \$551,174.

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.

	2015		2014	
	Total Cost	Net Cost	Total Cost	Net Cost
Governmental Activities:				
Instructional services	\$ 4,435,400	\$ 4,094,588	\$ 4,291,185	\$ 4,000,891
Operation and maintenance of facilities	828,621	828,621	719,177	719,177
Administrative services	1,082,114	1,082,114	824,929	824,929
Transportation	590,433	590,433	534,814	534,814
School lunch service	320,938	92,607	240,665	89,744
Interest on long-term debt	275,548	275,548	258,329	258,329
Total Governmental Activities	\$ 7,533,054	\$ 6,963,911	\$ 6,869,099	\$ 6,427,884

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$6,963,911 of support from general revenues, which comprise 92 percent of total revenues.

MOT CHARTER SCHOOL

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

THE SCHOOL'S FUNDS

The School's governmental funds (as presented on the balance sheet on page 14) reported a combined fund balance of \$2,937,299. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2015.

	2015	2014	Increase (Decrease)
Fund Balances:			
Restricted	\$ -	\$ 234,421	\$ (234,421)
Committed	1,026,883	2,345,548	(1,318,665)
Assigned	-	1,139,508	(1,139,508)
Unassigned	1,910,416	24,401	1,886,015
Total Fund Balances	<u>\$ 2,937,299</u>	<u>\$ 3,743,878</u>	<u>\$ (806,579)</u>

Governmental Funds

The School's governmental fund balance decrease is mainly due to expenses related to the new high school project. The negative fund balance in the capital projects fund is due to the retainage in the construction costs for the new building, for which loan funds have not yet been requested. The information that follows assists in illustrating the financial activities and balance of the governmental funds.

	2015	2014
REVENUES:		
Charges to school districts	\$ 1,409,224	\$ 1,037,056
State aid	7,215,529	5,808,669
Federal aid	165,849	107,165
Earnings on cash and investments	21,873	19,356
Contributions and other local sources	345,616	292,104
Food service	228,331	150,921
TOTAL	<u>\$ 9,386,422</u>	<u>\$ 7,415,271</u>

The largest portion of governmental fund expenditures is for salaries and other employment costs. The School is a service entity and, as such, is labor intensive.

	Governmental Funds	
	2015	2014
EXPENDITURES BY OBJECT:		
Salaries	\$ 4,153,145	\$ 3,402,318
Employment costs	1,905,893	1,634,321
Travel	21,633	32,919
Contractual service	116,178	137,474
Professional development	32,833	28,064
Public utilities services	155,063	107,513
Insurance	28,763	24,952
Transportation - buses	590,433	543,813
Land/building/facilities	91,942	73,977
Supplies and materials	250,923	116,151

MOT CHARTER SCHOOL

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

	Governmental Funds	
	2015	2014
EXPENDITURES BY OBJECT:		
Related services	189,097	151,561
Student activities	76,355	49,800
Capital outlays - equipment	347,205	36,197
Capital outlays - property	15,790,008	1,085,809
Debt service - principal	133,726	114,941
Debt service - interest	255,632	323,891
TOTAL	<u>\$ 24,138,829</u>	<u>\$ 7,854,701</u>

Expenses exceeded revenues during the fiscal year, resulting in a decrease in fund balance. Expenses related to the high school expansion were paid for with proceeds from the loan in the capitol project fund. The decrease in fund balance is due to the retainage in the construction costs for the new building, for which loan funds have not yet been requested.

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 original budget was not modified during the year.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 34.

REVENUES

1. Charges to School Districts are lower than expected because:
 - a. There were changes in student composition and district reimbursement rates.
2. State Revenues are higher than expected because:
 - a. The receipt of the Charter School Performance Fund Grant.
 - b. There were changes in student and staff composition.
 - c. There was an increase of \$250 per funded unit authorized by the state.
 - d. Funding provided through the Education Sustainment Grant, Technology Block Grant, and State Assessment Grant.
 - e. Funding provided for Odyssey of the Mind teams that qualified for nationals.
3. Federal Revenues are larger than expected because:
 - a. There were changes in the amounts allocated to us in the Consolidated Grant.
4. Contributions are larger than expected because:
 - a. Capital contributions were greater than anticipated due to the HVAC Capitol Campaign.
5. Other Local Revenues are larger than expected because:
 - a. Flow-through funds for Student Activities were greater than anticipated with the addition of the high school students.

MOT CHARTER SCHOOL

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

EXPENSES

1. Salaries and Other Employment Costs
 - a. Salary costs and Employment costs were lower than anticipated due to the use of contracted teachers for the high school arts classes, causing a corresponding increase in the Contracted Services expense line.
2. Travel
 - a. Higher than budget due to cost associated with student travel to national competitions, which is offset by additional revenues.
3. Contracted Services
 - a. Higher than budget due to the use of contracted teachers for the high school arts classes, causing a corresponding decrease in the Salaries and Other Employment costs expense line.
4. Utilities
 - a. Higher than budget due to significant increases in utilities, especially electricity.
5. Insurance
 - a. Lower than budget due to capitalizing the builders risk insurance under the capital outlay for the high school.
6. Transportation
 - a. Lower than budget due to payments withheld from the bus company for performance deficiencies.
7. Supplies and Materials
 - a. Lower than budget due to the shifting of some of the furniture and computer expenses shown here in the budget to the capitalized equipment expense line, as well as aggressively managing costs in this area. Savings are partially offset by the purchase of the Chromebooks for the 2015 - 2016 ninth grade high school class, which was done this year.
8. Student Activities
 - a. Higher than budget due to additional expenses related to the addition of the high school students, which are offset by higher revenues.
9. Capital Outlays - Equipment
 - a. Higher than budget due to the purchase of the walk-in refrigerator for the cafeteria, replacements/repairs to the HVAC system, the purchase of wireless access points for the K-8 Building, in order to take advantage of volume pricing due to purchasing the wireless for the high school, and the shifting of the furniture and computer expenses shown in the supply expense line to this expense line, as they are considered capital assets.

MOT CHARTER SCHOOL

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED (CONTD)

10. Capital Outlays - Property

- a. Higher than budget due to final expenses related to the new high school expansion project.

11. Debt

- a. Lower than budget due to delaying the drawing of funds against the Furniture Fixtures and Equipment Loan, resulting in a corresponding delay in the payments.

As the School begins its fourteenth 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 \$25,556,977 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisitions for governmental activities totaled \$16,557,211. These acquisitions were for computers, furniture, a walk-in cooler and oven for the cafeteria, HVAC replacements, and costs related to 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, MOT Charter School has total debt outstanding of \$19,736,266. 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 2015 was the thirteenth 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, 2015 AND 2014**

	Governmental Activities	
	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	\$ 5,311,611	\$ 4,615,122
Due from other governments	2,738	2,847
Total Current Assets	<u>5,314,349</u>	<u>4,617,969</u>
Noncurrent Assets:		
Land	1,232,830	75,000
Construction-in-progress	16,213,859	1,161,684
Capital assets, net of depreciation	8,110,288	8,078,351
Total Noncurrent Assets	<u>25,556,977</u>	<u>9,315,035</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	<u>438,746</u>	<u>259,777</u>
TOTAL ASSETS	<u><u>\$ 31,310,072</u></u>	<u><u>\$ 14,192,781</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 1,563,944	\$ 217,961
Accrued salaries and related costs	807,180	656,130
Unearned revenue	5,926	-
Interest payable	27,745	7,830
Notes payable	13,603,913	133,727
Total Current Liabilities	<u>16,008,708</u>	<u>1,015,648</u>
Noncurrent Liabilities:		
Compensated absences	99,643	83,469
Notes payable	6,132,353	5,790,437
Net pension liability	632,204	1,757,828
Total noncurrent Liabilities	<u>6,864,200</u>	<u>7,631,734</u>
TOTAL LIABILITIES	<u>22,872,908</u>	<u>8,647,382</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred pension contributions	<u>1,038,396</u>	<u>-</u>
NET POSITION:		
Net investment in capital assets	5,820,711	3,390,871
Restricted	1,026,883	3,719,477
Unrestricted (Deficit)	<u>551,174</u>	<u>(1,564,949)</u>
TOTAL NET POSITION	<u>7,398,768</u>	<u>5,545,399</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u><u>\$ 31,310,072</u></u>	<u><u>\$ 14,192,781</u></u>

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

MOT CHARTER SCHOOL STATEMENT OF ACTIVITIES

	Program Revenues			Net (Expense) Revenues and Changes in Net Position Totals
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Instructional services	\$ (4,435,400)	\$ -	\$ 187,784	\$ 153,028
Support services:				
Operation and maintenance of facilities	(828,621)	-	-	-
Administrative services	(1,082,114)	-	-	-
Transportation	(590,433)	-	-	-
Food service	(320,938)	171,498	56,833	-
Interest on long-term debt	(275,548)	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (7,533,054)</u>	<u>\$ 171,498</u>	<u>\$ 244,617</u>	<u>\$ 153,028</u>
GENERAL REVENUES				
Charges to school districts				1,409,224
State aid not restricted to specific purposes				7,215,529
Earnings on cash and investments				21,873
Other local sources				170,654
TOTAL GENERAL REVENUES				<u>8,817,280</u>
CHANGE IN NET POSITION				1,853,369
NET POSITION, BEGINNING OF YEAR, RESTATED				<u>5,545,399</u>
NET POSITION, END OF YEAR				<u>\$ 7,398,768</u>
				<u>\$ 5,545,399</u>

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

MOT CHARTER SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015
(With Summarized Comparative Data for June 30, 2014)

	General Fund	Capital Projects Fund	Total Governmental Funds	
			2015	2014
ASSETS				
Cash and cash equivalents	\$ 4,325,558	\$ 986,053	\$ 5,311,611	\$ 4,615,122
Due from other governments	2,738	-	2,738	2,847
TOTAL ASSETS	<u>\$ 4,328,296</u>	<u>\$ 986,053</u>	<u>\$ 5,314,349</u>	<u>\$ 4,617,969</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 201,597	\$ 1,362,347	\$ 1,563,944	\$ 217,961
Unearned revenue	5,926	-	5,926	-
Accrued salaries and related costs	807,180	-	807,180	551,920
TOTAL LIABILITIES	<u>1,014,703</u>	<u>1,362,347</u>	<u>2,377,050</u>	<u>874,091</u>
FUND BALANCES:				
Restricted	-	-	-	234,421
Committed	1,026,883	-	1,026,883	2,345,548
Assigned	-	-	-	1,139,508
Unassigned (deficit)	2,286,710	(376,294)	1,910,416	24,401
TOTAL FUND BALANCES (DEFICIT)	<u>3,313,593</u>	<u>(376,294)</u>	<u>2,937,299</u>	<u>3,743,878</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,328,296</u>	<u>\$ 986,053</u>	<u>\$ 5,314,349</u>	<u>\$ 4,617,969</u>

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, 2015**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 2,937,299
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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.	25,556,977
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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	\$ (27,745)	
Compensated absences	(99,643)	
Notes payable	(19,736,266)	
Net pension liability	(632,204)	(20,495,858)

Deferred inflows and outflows 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	438,746	
Deferred inflows	(1,038,396)	(599,650)

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 7,398,768
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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, 2015
(With Summarized Comparative Data for the Year Ended June 30, 2014)

	General Fund	Capital Projects Fund	Total Governmental Funds	
			2015	2014
REVENUES				
Charges to school districts	\$ 1,409,224	\$ -	\$ 1,409,224	\$ 1,037,056
Food service revenue	228,331	-	228,331	150,921
State aid	7,215,529	-	7,215,529	5,808,669
Federal aid	165,849	-	165,849	107,165
Earnings on cash and investments	21,042	831	21,873	19,356
Contributions	21,934	153,028	174,962	183,129
Other local sources	170,654	-	170,654	108,975
TOTAL REVENUES	9,232,563	153,859	9,386,422	7,415,271
EXPENDITURES				
Current:				
Instructional services	5,038,202	101	5,038,303	4,222,436
Operation and maintenance of facilities	580,470	-	580,470	471,025
Administrative services	1,082,114	-	1,082,114	824,928
Transportation	590,433	-	590,433	534,813
Food services	320,938	-	320,938	240,664
Capital outlays:				
Equipment	347,205	-	347,205	36,197
Property	175,094	15,614,914	15,790,008	1,085,807
Debt service:				
Principal	133,726	-	133,726	114,941
Interest	255,632	-	255,632	323,891
TOTAL EXPENDITURES	8,523,814	15,615,015	24,138,829	7,854,702
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	708,749	(15,461,156)	(14,752,407)	(439,431)
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	13,945,828	13,945,828	-
Transfers in	630,255	395,360	1,025,615	-
Transfers out	(395,360)	(630,255)	(1,025,615)	-
TOTAL OTHER FINANCING SOURCES	234,895	13,710,933	13,945,828	-
NET CHANGES IN FUND BALANCES	943,644	(1,750,223)	(806,579)	(439,431)
FUND BALANCES, BEGINNING OF YEAR	2,369,949	1,373,929	3,743,878	4,183,309
FUND BALANCES (DEFICT), END OF YEAR	\$ 3,313,593	\$ (376,294)	\$ 2,937,299	\$ 3,743,878

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, 2015**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (806,579)

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	\$16,557,211	
Depreciation expense	<u>(315,269)</u>	16,241,942

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	(13,945,828)	
Payment of note principal	133,726	
Accrued interest	<u>(19,915)</u>	(13,832,017)

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	<u>(16,174)</u>
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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 organization'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.

266,197

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 1,853,369

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

**MOT CHARTER SCHOOL
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUND
JUNE 30, 2015 AND 2014**

	<u>Student Activities Fund</u>	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	<u>\$ 38,401</u>	<u>\$ 32,306</u>
LIABILITIES		
Due to student groups	<u>\$ 38,401</u>	<u>\$ 32,306</u>
NET POSITION		
Unrestricted	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 38,401</u>	<u>\$ 32,306</u>

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

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 MOT Charter 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 MOT Charter School (the "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.

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.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

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.

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.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

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, 2015, 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 \$500 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/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 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.

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

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

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 \$99,643 at June 30, 2015.

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.

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 MOT Charter 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.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

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 has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. 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

No provision has been made for income taxes since the School qualifies as a tax-exempt organization under the Internal Revenue Code, Section 501(c)(3), and its activities do not result in any income tax liability.

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the School's tax returns will not be challenged by the taxing authorities and that the School will not be subject to additional tax, penalties, and interest as a result of such challenge. Generally, the School's tax returns remain open for federal income tax examination for three years from the date of filing.

Implementation of GASB Statements

During the year ended June 30, 2015, the School implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date." GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, with the objective of improving the accounting and financial reporting of state and local governments for pensions. It requires that state and local governments recognize and record the actuarially determined net pension liability or, for multi-employer cost sharing plans, the entity's share of the net pension liability in the entity's financial statements.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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

GASB Statement No. 71 amends GASB Statement No. 68 and addresses an issue regarding application of the transition provisions in the year of implementation. It requires that in the year of implementation, the state or local government recognize a beginning deferred outflow of contributions for its pension contributions made after the date of measurement.

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, 2014 basic financial statements to be comparative with the current year preparation.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2015, the School has a cash equivalent balance of \$5,350,012. Of that amount, \$4,737,080 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, 2015, the reported amount of the School's deposits not held with the State Treasurer's Office was \$612,932, and the bank balance was \$614,057. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$364,057 was collateralized with securities held by the financial institution in the School's name.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balances 7/01/14	Increases	Decreases	Balances 6/30/15
<i>Governmental Activities</i>				
General capital assets not being depreciated:				
Land	\$ 75,000	\$ 1,157,830	\$ -	\$ 1,232,830
Construction-in-progress	1,161,684	15,052,175	-	16,213,859
Total general capital assets not being depreciated	1,236,684	16,210,005	-	17,446,689
General capital assets being depreciated:				
Buildings and improvements	9,943,742	-	-	9,943,742
Equipment	1,003,430	99,658	-	1,103,088
Furniture and fixtures	228,037	247,548	-	475,585
Total general capital assets being depreciated	11,175,209	347,206	-	11,522,415
Accumulated depreciation	(3,096,858)	(315,269)	-	(3,412,127)
Total general capital assets being depreciated, net	8,078,351	31,937	-	8,110,288
Governmental Activities, Net	\$ 9,315,035	\$16,241,942	\$ -	\$25,556,977

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional activities	\$ 67,118
Operation and maintenance of facilities	248,151
	<u>\$ 315,269</u>

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, 2015, 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 of 2011 in the amount of \$2,775,000 at an interest rate of 3.75 percent to construct the 19,000 square foot

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

addition consisting of a gymnasium and classroom space. As of June 30, 2015, the School had drawn down the entire \$2,775,000 (\$2,564,596 in fiscal year 2012 and \$210,404 in fiscal year 2013). 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. 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. During the year, the School had draws totaling \$541,261. Interest accrues at LIBOR + 2.50 percent with principal payments to start in 2016 and maturity 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. During the year ended June 30, 2015, the School drew \$13,404,567 from this debt instrument. This loan accrues interest at LIBOR + 2.25 percent and is to be paid in full in 2016 with funds received from a new USDA loan.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$13,603,913	\$ 314,679
2017	251,204	249,103
2018	260,987	239,321
2019	271,178	229,130
2020	281,197	219,111
2021 - 2025	826,059	962,111
2026 - 2030	715,782	808,698
2031 - 2035	888,278	636,202
2036 - 2040	1,102,884	421,596
2041 - 2045	705,225	211,277
2046 - 2050	634,580	98,200
2051 - 2055	194,979	5,387
	<u>\$19,736,266</u>	<u>\$ 4,394,815</u>

Interest expense for the year ended June 30, 2015 was \$275,548.

A schedule of changes in debt is as follows:

	<u>Outstanding 7/01/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/15</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Notes payable	\$5,924,164	\$13,945,828	\$ 133,726	\$19,736,266	\$13,603,913
Compensated absences	83,469	16,174	-	99,643	-
Total Governmental Activities	<u>\$6,007,633</u>	<u>\$13,962,002</u>	<u>\$ 133,727</u>	<u>\$19,835,908</u>	<u>\$13,603,913</u>

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

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.

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, 2014. 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 of Pension Trustees. For the year ended June 30, 2015, the rate of the employer contribution was 9.56 percent of covered payroll. The School's contribution to PERS for the years ended June 30, 2015, 2014, and 2013 was \$765,402, \$561,402, and \$594,397, respectively.

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.

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

At June 30, 2015, the School reported a liability of \$632,204 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by rolling forward the

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

Plan's total pension liability as of June 30, 2013 to June 30, 2014. The School's proportion of the net pension liability was calculated utilizing the employer's one-year reported covered payroll as it relates to the total one-year reported covered payroll. At June 30, 2014, the School's proportion was 0.1717 percent, which was an increase of 0.0094 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the School recognized a net negative pension expense of \$266,197. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 1,038,396
Changes in proportions	84,572	-
Difference between employer contributions and proportionate share of total contributions	-	-
Contributions subsequent to the date of measurement	354,174	-
	<u>\$ 438,746</u>	<u>\$ 1,038,396</u>

An amount of \$354,174 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2014) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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:

Year Ending June 30,

2016	\$ 240,999
2017	240,999
2018	240,999
2019	240,999
2020	(10,172)
	<u>\$ 953,824</u>

Actuarial Assumptions

The total pension liability as of the June 30, 2014 measurement date was determined by an actuarial valuation as of June 30, 2013, and update procedures were used to roll forward the total pension liability to June 30, 2014. These actuarial valuations used the following actuarial assumptions, applied to all periods:

MOT CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

- 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>
Domestic equity	5.7%
International equity	5.7%
Fixed income	2.0%
Alternative investments	7.8%
Cash and equivalents	0.0%

Due to the fact that Plan assets are commingled with other State funds for investment purposes, a target allocation of each asset class specific to the Plan is not available. However, assets of the Plan may be used only for the payment of benefits to the members of the Plan.

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 of Pension Trustees, 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	\$ 2,369,383	\$ 632,204	\$ (836,023)

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.

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.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 7 COMMITMENTS AND CONTINGENCIES (cont'd)

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, 2015, anticipated construction commitments are as follows:

Name	Contract Amount	Completed through 6/30/15	Remaining Amount
High School Construction Project	\$ 14,989,273	\$ 14,138,985	\$ 850,288

In addition, the School has incurred costs in the amount of \$2,074,874 that were not under a formal construction commitment as of June 30, 2015.

NOTE 8 FUND BALANCES

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Capital Projects Fund	Total Governmental Funds
Committed:			
Capital improvements	\$ 1,026,883	\$ -	\$ 1,026,883
Unassigned (Deficit)	2,286,710	(376,294)	1,910,416
Total Fund Balances	<u>\$ 3,313,593</u>	<u>\$ (376,294)</u>	<u>\$ 2,937,299</u>

Deficit Fund Balance

The deficit in the Capital Projects Fund as of June 30, 2015 was \$376,924. It is anticipated that this deficit will be eliminated by debt proceeds when funds are drawn down to pay the outstanding payables associated with the School's building improvements.

MOT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Travel	\$	11,633
Contractual services	\$	39,753
Public utilities service	\$	10,213
Related services	\$	31,622
Student activities	\$	61,555
Capital outlay - equipment	\$	303,785
Capital outlay - property	\$	15,540,596

The excess expenditures were covered by the School's use of prior year's excess and revenues in excess of budget.

NOTE 10 RESTATEMENT

The School has restated its July 1, 2013 net position in its governmental activities to record the net pension liability and deferred outflows at June 30, 2014 in accordance with the requirements of GASB Statement No. 68 and GASB Statement No. 71, as discussed in Note 1. The net result of this change is a decrease of \$1,498,051 in governmental activities net position.

NOTE 11 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 17, 2015, 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, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
REVENUES				
Charges to school districts	\$ 1,419,626	\$ 1,419,626	\$ 1,409,224	\$ (10,402)
Food service revenue	153,931	153,931	228,331	74,400
State aid	6,864,529	6,864,529	7,215,529	351,000
Federal aid	163,371	163,371	165,849	2,478
Earnings on cash and investments	18,000	18,000	21,873	3,873
Contributions	20,000	20,000	174,962	154,962
Other local sources	30,200	30,200	170,654	140,454
TOTAL REVENUES	<u>8,669,657</u>	<u>8,669,657</u>	<u>9,386,422</u>	<u>716,765</u>
EXPENDITURES				
Current:				
Salaries	4,226,810	4,226,810	4,153,145	73,665
Employment costs	1,923,503	1,923,503	1,905,893	17,610
Travel	10,000	10,000	21,633	(11,633)
Contractual services	76,425	76,425	116,178	(39,753)
Professional development	34,800	34,800	32,833	1,967
Public utilities service	144,850	144,850	155,063	(10,213)
Insurance	44,953	44,953	28,763	16,190
Transportation - buses	632,964	632,964	590,433	42,531
Land/building/facilities	92,850	92,850	91,942	908
Supplies and materials	340,900	340,900	250,923	89,977
Related services	157,475	157,475	189,097	(31,622)
Student activities	14,800	14,800	76,355	(61,555)
Capital outlays:				
Equipment	43,420	43,420	347,205	(303,785)
Property	249,412	249,412	15,790,008	(15,540,596)
Debt service:				
Principal	228,175	228,175	133,726	94,449
Interest	278,429	278,429	255,632	22,797
TOTAL EXPENDITURES	<u>8,499,766</u>	<u>8,499,766</u>	<u>24,138,829</u>	<u>(15,639,063)</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>169,891</u>	<u>169,891</u>	<u>(14,752,407)</u>	<u>(14,922,298)</u>
OTHER FINANCING SOURCES				
Proceeds from financing	-	-	13,945,828	13,945,828
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>13,945,828</u>	<u>13,945,828</u>
NET CHANGES IN FUND BALANCE	<u>\$ 169,891</u>	<u>\$ 169,891</u>	<u>(806,579)</u>	<u>\$ (976,470)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>3,743,878</u>	
FUND BALANCE, END OF YEAR			<u>\$ 2,937,299</u>	

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

**MOT CHARTER SCHOOL
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION
LIABILITY AND CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>PROPORTIONATE SHARE OF NET PENSION LIABILITY</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.1717%
School's proportion of the net pension liability - dollar value	\$ 632,204
School's covered employee payroll	\$ 2,717,333
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	23.27%
Plan fiduciary net position as a percentage of the total pension liability	95.80%
 <u>CONTRIBUTIONS</u>	
Contractually required contribution	\$ 300,229
Contributions in relation to the contractually required contribution	<u>259,777</u>
Contribution excess	<u>\$ 40,452</u>
School's covered employee payroll	\$ 2,717,333
Contributions as a percentage of covered-employee payroll	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, 2015

	State Allocation	Local Funding	Federal Funding	Totals
ASSETS				
Cash and investments	\$ 100,007	\$ 4,225,551	\$ -	\$ 4,325,558
Due from other governments	-	2,738	-	2,738
TOTAL ASSETS	<u>\$ 100,007</u>	<u>\$ 4,228,289</u>	<u>\$ -</u>	<u>\$ 4,328,296</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 201,597	\$ -	\$ 201,597
Unearned revenue	-	5,926	-	5,926
Accrued salaries and related costs	-	807,180	-	807,180
TOTAL LIABILITIES	<u>-</u>	<u>1,014,703</u>	<u>-</u>	<u>1,014,703</u>
FUND BALANCES:				
Committed	100,000	926,883	-	1,026,883
Unassigned (Deficit)	7	2,286,703	-	2,286,710
TOTAL FUND BALANCES	<u>100,007</u>	<u>3,213,586</u>	<u>-</u>	<u>3,313,593</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 100,007</u>	<u>\$ 4,228,289</u>	<u>\$ -</u>	<u>\$ 4,328,296</u>

MOT CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	State Allocation	Local Funding	Federal Funding	Totals
REVENUES				
Charges to school districts	\$ -	\$ 1,409,224	-	\$ 1,409,224
Food service revenue	-	171,498	56,833	228,331
State aid	7,215,529	-	-	7,215,529
Federal aid	-	-	165,849	165,849
Earnings on cash and investments	-	21,042	-	21,042
Contributions	-	21,934	-	21,934
Other local sources	-	170,654	-	170,654
TOTAL REVENUES	<u>7,215,529</u>	<u>1,794,352</u>	<u>222,682</u>	<u>9,232,563</u>
EXPENDITURES				
Current:				
Instructional services	3,979,227	899,341	159,634	5,038,202
Operation and maintenance of facilities	510,055	70,415	-	580,470
Administrative services	963,970	118,144	-	1,082,114
Transportation	583,291	7,142	-	590,433
Food services	137,442	126,663	56,833	320,938
Capital outlays:				
Equipment	53,412	287,578	6,215	347,205
Property	168,924	6,170	-	175,094
Debt service:				
Principal	122,685	11,041	-	133,726
Interest	234,183	21,449	-	255,632
TOTAL EXPENDITURES	<u>6,753,189</u>	<u>1,547,943</u>	<u>222,682</u>	<u>8,523,814</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>462,340</u>	<u>246,409</u>	<u>-</u>	<u>708,749</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	630,255	-	630,255
Transfers Out	(395,360)	-	-	(395,360)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(395,360)</u>	<u>630,255</u>	<u>-</u>	<u>234,895</u>
NET CHANGE IN FUND BALANCES	66,980	876,664	-	943,644
FUND BALANCES, BEGINNING OF YEAR	<u>33,027</u>	<u>2,336,922</u>	<u>-</u>	<u>2,369,949</u>
FUND BALANCES, END OF YEAR	<u>\$ 100,007</u>	<u>\$ 3,213,586</u>	<u>\$ -</u>	<u>\$ 3,313,593</u>

**MOT CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

EXPENDITURES

Current:

Salaries	\$ 4,153,145
Employment costs	1,905,893
Travel	21,633
Contractual services	116,178
Professional development	32,833
Public utility services	155,063
Insurance	28,763
Transportation - buses	590,433
Land/building/facilities	91,942
Supplies and materials	250,923
Related services	189,097
Student activities	76,355

Capital outlays:

Equipment	347,205
Property	15,790,008

Debt service:

Principal	133,726
Interest	255,632

TOTAL EXPENDITURES

\$ 24,138,829

INDEPENDENT AUDITOR'S
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

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September 17, 2015

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 MOT Charter School, Middletown, Delaware, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise MOT Charter School's (the "School") basic financial statements, and have issued our report thereon dated September 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MOT 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 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 MOT 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*.

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