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

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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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

T 302.478.8940  
F 302.468.4001  
www.btcpa.com

September 28, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 the MOT Charter School as of June 30, 2016, 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 2015 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 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of a Matter

As discussed in Note 10 to the financial statements, the beginning governmental activities net position of the School has been restated to correct an error. Our opinion is not modified with respect to this matter.

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 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.

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 28, 2016 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, 2016, which is the School's fourteenth 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 \$424,950 and general revenues accounted for \$10.5 million, or 96 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 deferred outflows of resources and liabilities and deferred inflows of resources 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 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 position 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 \$7,721,812 at the close of the fiscal year. Approximately 52 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 2016 and 2015 follows:

**Table 1**  
**STATEMENT OF NET POSITION**

	Governmental Activities	
	2016	2015
ASSETS		
Current assets	\$ 6,486,310	\$ 5,402,041
Capital assets, net of depreciation	26,078,664	25,455,071
TOTAL ASSETS	<u>32,564,974</u>	<u>30,857,112</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred pension contributions	434,928	354,174
Deferred pension expense	278,490	84,572
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>713,418</u>	<u>438,746</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 33,278,392</u>	<u>\$ 31,295,858</u>

**MOT CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)**

**Table 1**  
**STATEMENT OF NET POSITION**

(cont'd)	Governmental Activities	
	2016	2015
<b>LIABILITIES</b>		
Current liabilities	\$ 17,489,313	\$ 16,096,400
Noncurrent liabilities	7,634,463	6,864,200
<b>TOTAL LIABILITIES</b>	<u>25,123,776</u>	<u>22,960,600</u>
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension contributions	432,804	1,038,396
 <b>NET POSITION</b>		
Net investment in capital assets	3,627,597	5,631,113
Restricted	398,756	-
Unrestricted	3,695,459	1,665,749
<b>TOTAL NET POSITION</b>	<u>7,721,812</u>	<u>7,296,862</u>
 <b>TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES, AND NET POSITION</b>	<u>\$ 33,278,392</u>	<u>\$ 31,295,858</u>

A comparative analysis of changes in net position for fiscal years 2016 and 2015 follows:

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

	Governmental Activities	
	2016	2015
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 192,334	\$ 171,498
Operating grants and contributions	231,436	244,617
Capital grants and contributions	50,740	153,028
General revenues:		
Charges to school districts	1,831,568	1,409,224
State aid not restricted	8,371,686	7,215,529
Earnings on cash and investments	39,582	21,873
Other	247,576	170,654
<b>TOTAL REVENUES</b>	<u>10,964,922</u>	<u>9,386,421</u>

**MOT CHARTER SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)**

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

(cont'd)	Governmental Activities	
	2016	2015
<b>EXPENSES</b>		
Instructional services	6,017,073	4,435,400
Supporting services:		
Operation and maintenance of facilities	1,558,795	828,621
Administrative services	1,257,340	1,082,114
Transportation	645,120	590,433
Food service	426,711	320,938
Interest on long-term debt	634,933	377,454
<b>TOTAL EXPENSES</b>	<u>10,539,972</u>	<u>7,634,960</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ 424,950</u>	<u>\$ 1,751,463</u>

This year was the fourteenth 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 tenth grade class for the new high school.

***Governmental Activities***

Net position of the School's governmental activities increased by \$424,950, and unrestricted net position reflects a positive balance of \$3,695,459.

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.

	2016		2015	
	Total Cost	Net Cost	Total Cost	Net Cost
Governmental Activities:				
Instructional services	\$ 6,017,073	\$ 5,808,165	\$ 4,435,400	\$ 4,094,588
Operation and maintenance of facilities	1,558,795	1,558,795	828,621	828,621
Administrative services	1,257,340	1,257,340	1,082,114	1,082,114
Transportation	645,120	645,120	590,433	590,433
School lunch service	426,711	161,109	320,938	92,607
Interest on long-term debt	634,933	634,933	377,454	377,454
<b>Total Governmental Activities</b>	<u>\$ 10,539,972</u>	<u>\$10,065,462</u>	<u>\$ 7,634,960</u>	<u>\$ 7,065,817</u>

The reliance on general revenues to support governmental activities is indicated by the net services column reflecting the need for \$10,065,462 of support from general revenues, which comprise 95 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 \$5,283,545. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2016.

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Fund Balances:			
Restricted	\$ 398,756	\$ -	\$ 398,756
Committed	2,112,429	1,026,883	1,085,546
Assigned	603,478	-	603,478
Unassigned	<u>2,168,882</u>	<u>1,998,108</u>	<u>170,774</u>
 Total Fund Balances	 <u>\$ 5,283,545</u>	 <u>\$ 3,024,991</u>	 <u>\$ 2,258,554</u>

**Governmental Funds**

The School's governmental funds balance increase is mainly due to the receipt of the balance of the draws against the construction loan. The information that follows assists in illustrating the financial activities and balance of the governmental funds.

	<u>2016</u>	<u>2015</u>
REVENUES:		
Charges to school districts	\$ 1,831,568	\$ 1,409,224
State aid	8,371,686	7,215,529
Federal aid	158,168	165,849
Earnings on cash and investments	39,582	21,873
Contributions and other local sources	298,316	345,616
Food service	<u>265,602</u>	<u>228,331</u>
 TOTAL	 <u>\$ 10,964,922</u>	 <u>\$ 9,386,422</u>

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

	<u>Governmental Funds</u>	
	<u>2016</u>	<u>2015</u>
EXPENDITURES BY OBJECT:		
Salaries	\$ 5,035,735	\$ 4,153,043
Employment costs	2,343,013	1,905,893
Travel	7,343	21,633
Contractual service	191,865	116,178
Professional development	38,082	32,833
Public utilities services	273,028	155,063
Insurance	46,077	28,763

## MOT CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

(cont'd)	Governmental Funds	
	2016	2015
EXPENDITURES BY OBJECT:		
Transportation - buses	645,120	590,433
Land/building/facilities	169,540	91,942
Supplies and materials	301,014	250,923
Related services	238,806	189,097
Student activities	88,293	76,355
Capital outlays - equipment	266,127	347,205
Capital outlays - property	1,066,202	15,688,103
Debt service - principal	249,399	133,727
Debt service - interest	623,232	357,537
TOTAL	<u>\$ 11,582,876</u>	<u>\$ 24,138,829</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 construction loan, resulting in an increase in fund balances.

#### 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

- Charges to School Districts are higher than expected because:
  - There were changes in student composition and district reimbursement rates.
- Food service revenue is higher than expected because:
  - The growing cafeteria program produced additional revenues as well as expenses.
- State Revenues are higher than expected because:
  - There were changes in student and staff composition.
  - Receipt of the School Improvement Grant awarded to MOT Charter School
- Federal Revenues are lower than expected because:
  - Federal revenues are received after the expense is incurred, and the balance of the funds will be spent at the beginning of the next fiscal year.
- Contributions are larger than expected because:
  - Capital contributions were greater than anticipated due to the HVAC Capitol Campaign.

## MOT CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

6. Other Local Revenues are larger than expected because:
  - a. Flow-through funds for Student Activities were greater than anticipated with the additional high school students.

#### EXPENSES

1. Salaries and Other Employment Costs are higher than expected because:
  - a. Salary increases were approved in December.
2. Contracted Services are higher than expected because:
  - a. There were additional costs for Contracted Teachers in the High School.
  - b. Contracted substitute school nurses were required for the K8 Academy due to an unexpected long absence, and in the High School due to a mid-year resignation.
  - c. Dual enrollment and laptop fees were incurred, which are covered by additional revenues.
3. Professional Development higher than expected because:
  - a. Schoology Training.
  - b. Focused Schools Professional Development.
  - c. Delaware Charter School Network Dues.
  - d. Higher Science Coalition Fees.
4. Utilities are higher than expected because:
  - a. Higher than anticipated electricity costs were only partially offset by lower than anticipated heating costs.
5. Transportation is lower than expected because:
  - a. State funding was lower than anticipated, which is tied to the contracted payment due.
  - b. Payments were withheld from the bus company for performance deficiencies.
6. Land/Building/Facilities is higher than expected because:
  - a. Additional expenses related to a sprinkler leak that are partially offset by insurance claim proceeds.
  - b. Higher than anticipated custodial supply and equipment expenses.
  - c. The purchase of the additional phones required for the high school for next year.
7. Supplies and Materials are higher than expected because:
  - a. Advanced purchase of laptops for next year's staff, and Chromebooks for future needs to take advantage of lower prices.
8. Related Services are higher than expected because:
  - a. There were additional cafeteria expenses that are offset by additional revenues.
  - b. Costs associated with the School Messenger notification system.
  - c. Additional marketing expenses and expenses for help wanted advertisements.
9. Student Activities are higher than expected because:
  - a. Additional expenses related to the addition of the high school students, which are mostly offset by additional revenues.

## MOT CHARTER SCHOOL

### MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED (CONT'D)

10. Capital Outlays – Equipment are higher than expected because:
  - a. Furniture Fixture and Equipment purchases for the new high school which were not in the operating budget.
11. Capital Outlays – Property are higher than expected because:
  - a. Expenses related to the stage project.
  - b. Additional interest expenses due to the extension of the construction loan pending closing on the permanent financing on July, 1 2016.
12. Debt is lower than expected because:
  - a. The delay in the closing on permanent financing until July 1, 2016 resulted in a shifting of expenses from debt service to capital outlays as we continue to capitalize the interest payments on the construction loan.

As the School begins its fifteenth 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 \$26,078,664 invested in capital assets, net of depreciation. Acquisitions for the year totaled \$1,295,231. These acquisitions were for furniture and equipment, 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, the School has total debt outstanding of \$22,451,067. 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 2016 was the fourteenth 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, 2016 AND 2015**

	Governmental Activities	
	2016	2015*
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets:		
Cash and cash equivalents	\$ 6,138,555	\$ 5,311,611
Loan proceeds receivable	344,799	87,692
Due from other governments	2,956	2,738
Total Current Assets	6,486,310	5,402,041
Noncurrent Assets:		
Land	1,232,830	1,232,830
Construction-in-progress	154,472	16,111,953
Capital assets, net of depreciation	24,691,362	8,110,288
Total Noncurrent Assets	26,078,664	25,455,071
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred pension contributions	434,928	354,174
Deferred pension expense	278,490	84,572
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>713,418</b>	<b>438,746</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 33,278,392</b>	<b>\$ 31,295,858</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
Current Liabilities:		
Accounts payable	\$ 227,478	\$ 1,563,944
Accrued salaries and related costs	965,442	807,180
Unearned revenue	9,845	5,926
Interest payable	39,447	27,745
Notes payable	16,247,101	13,691,605
Total Current Liabilities	17,489,313	16,096,400
Noncurrent Liabilities:		
Compensated absences	111,725	99,643
Notes payable	6,203,966	6,132,353
Net pension liability	1,318,772	632,204
Total Noncurrent Liabilities	7,634,463	6,864,200
<b>TOTAL LIABILITIES</b>	<b>25,123,776</b>	<b>22,960,600</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred pension expense	432,804	1,038,396
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>432,804</b>	<b>1,038,396</b>
<b>NET POSITION</b>		
Net investment in capital assets	3,627,597	5,631,113
Restricted	398,756	-
Unrestricted	3,695,459	1,665,749
<b>TOTAL NET POSITION</b>	<b>7,721,812</b>	<b>7,296,862</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>\$ 33,278,392</b>	<b>\$ 31,295,858</b>

\* Restated, see Note 10

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

**MOT CHARTER SCHOOL  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(With Summarized Comparative Data for the Year Ended June 30, 2015)**

	Program Revenues		Capital	Net (Expense) Revenues and Changes in Net Position	
	Charges for Services	Operating Grants and Contributions	Grants and Contributions	Totals	2015*
	Expenses	\$	\$	2016	2015*
<b>GOVERNMENTAL ACTIVITIES</b>					
Instructional services	\$ (6,017,073)	-	\$ 50,740	\$ (5,808,165)	\$ (4,094,588)
Support services:					
Operation and maintenance of facilities	(1,558,795)	-	-	(1,558,795)	(828,621)
Administrative services	(1,257,340)	-	-	(1,257,340)	(1,082,114)
Transportation	(645,120)	-	-	(645,120)	(590,433)
Food service	(426,711)	192,334	73,268	(161,109)	(92,607)
Interest on long-term debt	(634,933)	-	-	(634,933)	(377,454)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ (10,539,972)</b>	<b>\$ 192,334</b>	<b>\$ 231,436</b>	<b>(10,065,462)</b>	<b>(7,065,817)</b>
<b>GENERAL REVENUES</b>					
Charges to school districts				1,831,568	1,409,224
State aid not restricted to specific purposes				8,371,686	7,215,529
Earnings on cash and investments				39,582	21,873
Other local sources				247,576	170,654
<b>TOTAL GENERAL REVENUES</b>				<b>10,490,412</b>	<b>8,817,280</b>
<b>CHANGE IN NET POSITION</b>				424,950	1,751,463
<b>NET POSITION, BEGINNING OF YEAR, RESTATED</b>				<b>7,296,862</b>	<b>5,545,399</b>
<b>NET POSITION, END OF YEAR</b>				<b>\$ 7,721,812</b>	<b>\$ 7,296,862</b>

\* Restated, see Note 10

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

**MOT CHARTER SCHOOL**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**  
**(With Summarized Comparative Data for June 30, 2015)**

	General Fund	Capital Projects Fund	Total Governmental Funds	
			2016	2015*
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,465,673	\$ 672,882	\$ 6,138,555	\$ 5,311,611
Loan proceeds receivable	-	344,799	344,799	87,692
Due from other governments	2,956	-	2,956	2,738
<b>TOTAL ASSETS</b>	<u>\$ 5,468,629</u>	<u>\$ 1,017,681</u>	<u>\$ 6,486,310</u>	<u>\$ 5,402,041</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 212,031	\$ 15,447	\$ 227,478	\$ 1,563,944
Unearned revenue	9,845	-	9,845	5,926
Accrued salaries and related costs	965,442	-	965,442	807,180
<b>TOTAL LIABILITIES</b>	<u>1,187,318</u>	<u>15,447</u>	<u>1,202,765</u>	<u>2,377,050</u>
<b>FUND BALANCES:</b>				
Restricted	-	398,756	398,756	-
Committed	2,112,429	-	2,112,429	1,026,883
Assigned	-	603,478	603,478	-
Unassigned	2,168,882	-	2,168,882	1,998,108
<b>TOTAL FUND BALANCES</b>	<u>4,281,311</u>	<u>1,002,234</u>	<u>5,283,545</u>	<u>3,024,991</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 5,468,629</u>	<u>\$ 1,017,681</u>	<u>\$ 6,486,310</u>	<u>\$ 5,402,041</u>

\* Restated, see Note 10

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, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 5,283,545

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. 26,078,664

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	\$ (39,447)	
Compensated absences	(111,725)	
Notes payable	(22,451,067)	
Net pension liability	<u>(1,318,772)</u>	(23,921,011)

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	434,928	
Deferred outflows - pension expense	278,490	
Deferred inflows - pension expense	<u>(432,804)</u>	<u>280,614</u>

TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 7,721,812

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, 2016**  
**(With Summarized Comparative Data for the Year Ended June 30, 2015)**

	General Fund	Capital Projects Fund	Total Governmental Funds	
			2016	2015*
<b>REVENUES</b>				
Charges to school districts	\$ 1,831,568	\$ -	\$ 1,831,568	\$ 1,409,224
Food service revenue	265,602	-	265,602	228,331
State aid	8,371,686	-	8,371,686	7,215,529
Federal aid	158,168	-	158,168	165,849
Earnings on cash and investments	39,203	379	39,582	21,873
Contributions	207	50,533	50,740	174,962
Other local sources	247,576	-	247,576	170,654
<b>TOTAL REVENUES</b>	<u>10,914,010</u>	<u>50,912</u>	<u>10,964,922</u>	<u>9,386,422</u>
<b>EXPENDITURES</b>				
Current:				
Instructional services	6,114,201	21,061	6,135,262	5,038,303
Operation and maintenance of facilities	913,483	-	913,483	580,470
Administrative services	1,257,340	-	1,257,340	1,082,114
Transportation	645,120	-	645,120	590,433
Food services	426,711	-	426,711	320,938
Capital outlays:				
Equipment	18,900	247,227	266,127	347,205
Property	206,218	859,984	1,066,202	15,688,103
Debt service:				
Principal	249,399	-	249,399	133,726
Interest	623,232	-	623,232	357,537
<b>TOTAL EXPENDITURES</b>	<u>10,454,604</u>	<u>1,128,272</u>	<u>11,582,876</u>	<u>24,138,829</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	459,406	(1,077,360)	(617,954)	(14,752,407)
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from long-term debt	-	2,876,508	2,876,508	14,033,520
Transfers in	508,312	-	508,312	1,025,615
Transfers out	-	(508,312)	(508,312)	(1,025,615)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>508,312</u>	<u>2,368,196</u>	<u>2,876,508</u>	<u>14,033,520</u>
<b>NET CHANGES IN FUND BALANCES</b>	967,718	1,290,836	2,258,554	(718,887)
<b>FUND BALANCES (DEFICIT), BEGINNING OF YEAR</b>	3,313,593	(288,602)	3,024,991	3,743,878
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 4,281,311</u>	<u>\$ 1,002,234</u>	<u>\$ 5,283,545</u>	<u>\$ 3,024,991</u>

\* Restated, see Note 10

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, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 2,258,554

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	\$ 1,295,231	
Depreciation expense	<u>(671,638)</u>	623,593

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	(2,876,508)	
Payment of note principal	249,399	
Accrued interest	<u>(11,702)</u>	(2,638,811)

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	(12,082)
----------------------	----------

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.

193,696

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 424,950

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

**MOT CHARTER SCHOOL  
STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND  
JUNE 30, 2016 AND 2015**

	Student Activities Fund	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 59,979	\$ 38,401
<b>LIABILITIES</b>		
Due to student groups	\$ 59,979	\$ 38,401
<b>NET POSITION</b>		
Unrestricted	-	-
<b>TOTAL LIABILITIES AND NET POSITION</b>	\$ 59,979	\$ 38,401

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 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 (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, 2016, 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 currently has two items 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

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

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

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 \$111,725 at June 30, 2016.

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 the School. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Directors.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

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

*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 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.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

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

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, 2015 basic financial statements to be comparative with the current year preparation.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2016, the School has a cash equivalent balance of \$6,198,534. Of that amount, \$5,860,519 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, 2016, the reported amount of the School's deposits not held with the State Treasurer's Office was \$338,015, and the bank balance was \$339,366. Of the bank balance, \$250,000 was covered by federal depository insurance, and \$89,366 was exposed to custodial credit risk because it was uninsured.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Balances</u> <u>7/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances</u> <u>6/30/16</u>
<b><i>Governmental Activities</i></b>				
General capital assets not being depreciated:				
Land	\$ 1,232,830	\$ -	\$ -	\$ 1,232,830
Construction-in-progress	<u>16,111,953</u>	<u>1,204,185</u>	<u>17,161,666</u>	<u>154,472</u>
Total general capital assets not being depreciated	<u>17,344,783</u>	<u>1,204,185</u>	<u>17,161,666</u>	<u>1,387,302</u>

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

(cont'd)	Balances 7/01/15	Increases	Decreases	Balances 6/30/16
General capital assets being depreciated:				
Buildings and improvements	9,943,743	17,179,945	-	27,123,688
Equipment	1,103,088	12,499	-	1,115,587
Furniture and fixtures	475,584	60,268	-	535,852
Total general capital assets being depreciated	11,522,415	17,252,712	-	28,775,127
Accumulated depreciation	(3,412,127)	(671,638)	-	(4,083,765)
Total general capital assets being depreciated, net	<u>8,110,288</u>	<u>16,581,074</u>	-	<u>24,691,362</u>
Governmental Activities, Net	<u>\$25,455,071</u>	<u>\$17,785,259</u>	<u>\$17,161,666</u>	<u>\$26,078,664</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional activities	\$ 63,424
Operation and maintenance of facilities	<u>608,214</u>
	<u>\$ 671,638</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, 2016, 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 addition consisting of a gymnasium and classroom space. As of June 30, 2016, 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.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT (cont'd)

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 ended June 30, 2016, the School had draws outstanding totaling \$891,199. 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. During the year ended June 30, 2016, the School had draws outstanding of \$15,565,229 from this debt instrument. This loan accrues interest at LIBOR + 2.25 percent and is to be paid in full in 2017 with funds received from a new USDA loan. In addition to the above amount, the School has recorded loan proceeds receivable for \$344,799 representing self-funded costs that are eligible to be refunded as part of the USDA loan. The total amount of the liability to be received from the USDA loan at June 30, 2016 was \$15,910,028.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 16,247,101	\$ 261,440
2018	349,770	248,743
2019	362,980	235,533
2020	376,112	222,401
2021	272,857	208,355
2022 - 2026	731,995	927,722
2027 - 2031	747,539	776,941
2032 - 2036	927,528	596,952
2037 - 2041	1,152,392	372,088
2042 - 2046	571,174	185,972
2047 - 2051	658,821	73,959
2052	52,798	506
	<u>\$ 22,451,067</u>	<u>\$ 4,110,612</u>

Interest expense for the year ended June 30, 2016 was \$634,933.

A schedule of changes in debt is as follows:

	<u>Outstanding 7/01/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding 6/30/16</u>	<u>Amounts Due within One Year</u>
Governmental Activities:					
Notes payable	\$19,823,958	\$ 2,876,508	\$ 249,399	\$22,451,067	\$16,247,101
Compensated absences	99,643	12,082	-	111,725	-
Total Governmental Activities	<u>\$19,923,601</u>	<u>\$ 2,888,590</u>	<u>\$ 249,399</u>	<u>\$22,562,792</u>	<u>\$16,247,101</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, 2015. 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](http://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.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 5     PENSION PLAN (cont'd)

*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.

*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, 2016, 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, 2016 was \$434,928.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

*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, 2016, the School reported a liability of \$1,318,772 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 to June 30, 2015. 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, 2015, the School's proportion was 0.1982 percent, which was an increase of 0.0265 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$241,232. At June 30, 2016, 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	\$ -	\$ 403,222
Changes in proportions	278,490	-
Difference between actual and expected experience	-	29,582
Contributions subsequent to the date of measurement	<u>434,928</u>	<u>-</u>
	<u>\$ 713,418</u>	<u>\$ 432,804</u>

An amount of \$434,928 is reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date (June 30, 2015) and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 5      PENSION PLAN (cont'd)

Year Ending June 30,		
2017	\$	(51,024)
2018		(51,024)
2019		(51,024)
2020		(51,024)
2021		49,782
		\$ (154,314)

Actuarial Assumptions

The total pension liability as of the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, and update procedures were used to roll forward the total pension liability to June 30, 2015. 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

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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%	36.5%
International equity	5.7%	16.5%
Fixed income	2.0%	22.6%
Alternative investments	7.8%	19.6%
Cash and equivalents	0.0%	4.8%

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.

	<u>1% Decrease 6.2%</u>	<u>Current Rate Discount Rate 7.2%</u>	<u>1% Increase 8.2%</u>
School's proportionate share of the net pension liability (asset)	\$ 2,979,065	\$ 1,318,772	\$ (627,670)

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 PENSION PLAN (cont'd)

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](http://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.

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, 2016, anticipated construction commitments are as follows:

Name	Contract Amount	Completed through 6/30/16	Remaining Amount
HVAC Unit Replacement	\$ 463,417	\$ 154,472	\$ 308,945

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 8 FUND BALANCES

As of June 30, 2016, fund balances are composed of the following:

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Committed:			
Capital improvements	\$ 2,112,429	\$ -	\$ 2,112,429
Restricted	-	398,756	398,756
Assigned	-	603,478	603,478
Unassigned	<u>2,168,882</u>	<u>-</u>	<u>2,168,882</u>
 Total Fund Balances	 <u>\$ 4,281,311</u>	 <u>\$ 1,002,234</u>	 <u>\$ 5,283,545</u>

NOTE 9 EXCESS EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following categories:

Salaries	\$ 71,350
Employment costs	\$ 171,524
Contractual services	\$ 54,183
Professional development	\$ 15,282
Public utilities service	\$ 15,128
Insurance	\$ 581
Land/building/facilities	\$ 57,340
Supplies and materials	\$ 122,814
Related services	\$ 91,431
Student activities	\$ 73,043
Capital outlay - equipment	\$ 260,707
Capital outlay - property	\$ 1,066,202

The excess expenditures were covered by revenues exceeding expected amounts and the School's use of prior year's reserves.

NOTE 10 INTERFUND TRANSFERS

The interfund transfer from the Capital Projects Fund to the General Fund in the amount of \$508,312 was to reimburse the General Fund for expenditures paid for related to the construction of the high school building.

MOT CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PRIOR PERIOD RESTATEMENT

The School has restated its July 1, 2014 net position in its governmental activities to correct a prior period error in which interest incurred on loans used for the construction of the high school was improperly capitalized. The net result of this change was a decrease of \$101,905 in construction-in-progress and governmental activities net position. In addition, the School recorded a loan proceeds receivable and increased loan proceeds to reflect the timing difference of expenditures paid related to the high school project and the actual loan draw downs. This increased the receivable and loan balance by \$87,692 at the governmental activities level and increased the Capital Projects Fund Balance as of June 30, 2015 by \$87,692.

NOTE 12 SUBSEQUENT EVENTS

The School has evaluated all subsequent events through September 28, 2016, 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, 2016**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Charges to school districts	\$ 1,801,533	\$ 1,801,533	\$ 1,831,568	\$ 30,035
Food service revenue	153,931	153,931	265,602	111,671
State aid	7,673,022	7,673,022	8,371,686	698,664
Federal aid	193,075	193,075	158,168	(34,907)
Earnings on cash and investments	24,000	24,000	39,582	15,582
Contributions	20,000	20,000	50,740	30,740
Other local sources	195,200	195,200	247,576	52,376
<b>TOTAL REVENUES</b>	<u>10,060,761</u>	<u>10,060,761</u>	<u>10,964,922</u>	<u>904,161</u>
<b>EXPENDITURES</b>				
Current:				
Salaries	4,964,385	4,964,385	5,035,735	(71,350)
Employment costs	2,171,489	2,171,489	2,343,013	(171,524)
Travel	8,000	8,000	7,343	657
Contractual services	137,682	137,682	191,865	(54,183)
Professional development	22,800	22,800	38,082	(15,282)
Public utilities service	257,900	257,900	273,028	(15,128)
Insurance	45,496	45,496	46,077	(581)
Transportation - buses	735,460	735,460	645,120	90,340
Land/building/facilities	112,200	112,200	169,540	(57,340)
Supplies and materials	178,200	178,200	301,014	(122,814)
Related services	147,375	147,375	238,806	(91,431)
Student activities	15,250	15,250	88,293	(73,043)
Capital outlays:				
Equipment	5,420	5,420	266,127	(260,707)
Property	-	-	1,066,202	(1,066,202)
Debt service:				
Principal	265,774	265,774	249,399	16,375
Interest	800,161	800,161	623,232	176,929
<b>TOTAL EXPENDITURES</b>	<u>9,867,592</u>	<u>9,867,592</u>	<u>11,582,876</u>	<u>(1,715,284)</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>193,169</u>	<u>193,169</u>	<u>(617,954)</u>	<u>(811,123)</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from financing	-	-	2,876,508	2,876,508
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>-</u>	<u>2,876,508</u>	<u>2,876,508</u>
<b>NET CHANGES IN FUND BALANCE</b>	<u>\$ 193,169</u>	<u>\$ 193,169</u>	2,258,554	<u>\$ 2,065,385</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>3,024,991</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 5,283,545</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, 2015</u>	<u>JUNE 30, 2014</u>
School's proportion of the net pension liability	0.1982%	0.1717%
School's proportion of the net pension liability - dollar value	\$ 1,318,772	\$ 632,204
School's covered employee payroll	\$ 3,696,998	\$ 2,717,333
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	35.67%	23.27%
Plan fiduciary net position as a percentage of the total pension liability	92.67%	95.80%

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, 2016</u>	<u>JUNE 30, 2015</u>
Contractually required contribution	\$ 434,928	\$ 353,433
Contributions in relation to the contractually required contribution	<u>434,928</u>	<u>353,433</u>
Contribution excess	<u>\$ -</u>	<u>\$ -</u>
School's covered employee payroll	\$ 4,539,959	\$ 3,696,998
Contributions as a percentage of covered-employee payroll	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, 2016**

	State Allocation	Local Funding	Federal Funding	Totals
<b>ASSETS</b>				
Cash and investments	\$ 5,318	\$ 5,460,355	\$ -	\$ 5,465,673
Due from other governments	-	2,956	-	2,956
<b>TOTAL ASSETS</b>	\$ 5,318	\$ 5,463,311	\$ -	\$ 5,468,629
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ -	\$ 212,031	\$ -	\$ 212,031
Unearned revenue	-	9,845	-	9,845
Accrued salaries and related costs	-	965,442	-	965,442
<b>TOTAL LIABILITIES</b>	-	1,187,318	-	1,187,318
<b>FUND BALANCES:</b>				
Committed	-	2,112,429	-	2,112,429
Unassigned	5,318	2,163,564	-	2,168,882
<b>TOTAL FUND BALANCES</b>	5,318	4,275,993	-	4,281,311
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	\$ 5,318	\$ 5,463,311	\$ -	\$ 5,468,629

**MOT CHARTER SCHOOL**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	State Allocation	Local Funding	Federal Funding	Totals
<b>REVENUES</b>				
Charges to school districts	\$ -	\$ 1,831,568	-	\$ 1,831,568
Food service revenue	-	192,334	73,268	265,602
State aid	8,371,686	-	-	8,371,686
Federal aid	-	-	158,168	158,168
Earnings on cash and investments	-	39,203	-	39,203
Contributions	-	207	-	207
Other local sources	-	247,576	-	247,576
<b>TOTAL REVENUES</b>	<b>8,371,686</b>	<b>2,310,888</b>	<b>231,436</b>	<b>10,914,010</b>
<b>EXPENDITURES</b>				
Current:				
Instructional services	5,128,098	827,935	158,168	6,114,201
Operation and maintenance of facilities	802,854	110,629	-	913,483
Administrative services	1,108,561	148,779	-	1,257,340
Transportation	417,264	227,856	-	645,120
Food services	129,828	223,615	73,268	426,711
Capital outlays:				
Equipment	12,657	6,243	-	18,900
Property	45,718	160,500	-	206,218
Debt service:				
Principal	221,484	27,915	-	249,399
Interest	599,911	23,321	-	623,232
<b>TOTAL EXPENDITURES</b>	<b>8,466,375</b>	<b>1,756,793</b>	<b>231,436</b>	<b>10,454,604</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(94,689)</b>	<b>554,095</b>	<b>-</b>	<b>459,406</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers In	-	508,312	-	508,312
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>508,312</b>	<b>-</b>	<b>508,312</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(94,689)</b>	<b>1,062,407</b>	<b>-</b>	<b>967,718</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>100,007</b>	<b>3,213,586</b>	<b>-</b>	<b>3,313,593</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 5,318</b>	<b>\$ 4,275,993</b>	<b>\$ -</b>	<b>\$ 4,281,311</b>

**MOT CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

EXPENDITURES

Current:

Salaries	\$ 5,035,735
Employment costs	2,343,013
Travel	7,343
Contractual services	191,865
Professional development	38,082
Public utility services	273,028
Insurance	46,077
Transportation - buses	645,120
Land/building/facilities	169,540
Supplies and materials	301,014
Related services	238,806
Student activities	88,293

Capital outlays:

Equipment	266,127
Property	1,066,202

Debt service:

Principal	249,399
Interest	623,232

TOTAL EXPENDITURES

\$ 11,582,876

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 28, 2016

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, Middletown, Delaware, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the MOT Charter School's ("the School") basic financial statements, and have issued our report thereon dated September 28, 2016.

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