

July 23, 2012

Ms. Meryl Hewett  
Business Manager  
and  
Ms. Linda Jennings  
Head of School  
MOT Charter School  
1156 Levels Road  
Middletown, DE 19709-9078

Dear Ms. Hewett and Ms. Jennings:

We are pleased to confirm our understanding of the services we are to provide the MOT Charter School for the year ended June 30, 2012. We will audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements of the MOT Charter School as of and for the year ended June 30, 2012. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the MOT Charter School's 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. As part of our engagement, we will apply certain limited procedures to the MOT Charter School's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding 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 will 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. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Budget and Comparison Schedule - Governmental Funds

We have also been engaged to report on supplementary information other than RSI that accompanies the MOT Charter School's financial statements. We will subject the following supplementary information to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Combining Balance Sheet - General Fund
- Combining Statements of Revenues, Expenditures and Changes in Fund Balances - General Fund
- Schedule of Expenditures by Natural Classification - Governmental Funds

### Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of the MOT Charter School and other procedures we consider necessary to enable us to express such opinions. If our opinions on the financial statements are other than unqualified, (unmodified) we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

If circumstances occur related to the condition of your records, the availability of sufficient, appropriate audit evidence or the existence of a significant risk of material misstatement of the financial statements caused by error, fraudulent financial reporting or misappropriation of assets, which in our professional judgment prevent us from completing the audit or forming an opinion on the financial statements, we retain the right to take any course of action permitted by professional standards, including declining to express an opinion or issue a report, or withdrawing from the engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the entity, and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties. If during our audit we become aware that the MOT Charter School is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory or contractual requirements.

### Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors; (2) fraudulent financial reporting; (3) misappropriation of assets; or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors or any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

#### **Audit Procedures - Internal Controls**

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and; accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

#### **Audit Procedures - Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the MOT Charter School's compliance with the provisions of applicable laws, regulations, contracts, agreements and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

#### **Management Responsibilities**

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. As part of the audit, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge or experience to oversee any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the MOT Charter School and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

Management is also responsible for making all financial records and related information available to us and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and

for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud and for informing us about all known or suspected fraud affecting the government involving (1) management; (2) employees who have significant roles in internal control; and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators or others. In addition, you are responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements or abuse that we may report.

You are responsible for the preparation of the supplementary information in conformity with accounting principles generally accepted in the United States of America. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) that you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) that the methods of measurement or presentation have not changed from those used in the prior year (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You are required to disclose in the financial statements the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or were available to be issued. You agree that you will not date the subsequent event note earlier than the date of the management representation letter.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or other studies. You are also responsible for providing management's views on our current findings, conclusions and recommendations, as well as your planned corrective actions, for the report, and the timing and format for providing that information.

With regard to using our auditors' report, you understand that you must obtain our prior written consent to reproduce or use our report in bond offering official statements or other documents.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your website or any other website, you understand that electronic sites are a means to distribute information and; therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

During the course of our engagement, we will request information and explanations from management regarding, among other things, the Government's operations, internal controls, future plans, specific transactions and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. You agree that we shall not be responsible for any claim that may arise out of or relate to any of the written or oral representations relied upon by us in issuing our report to you.

In addition, you further agree to indemnify and hold us harmless from any claim, demand or potential liability and you agree to tender a defense (including providing counsel) on our behalf, reasonably acceptable to us, to defend against any claim, demand or potential liability arising out of our services performed under this engagement asserted, brought or commenced against us by any third party relating to or pertaining to any false or misleading representations by any officer, director or member of your management team. If you fail to tender a defense, you agree to pay all of our costs and attorneys' fees incurred by us incident to defending against any such claim, demand or potential liability asserted, brought or commenced against us by any third party. Additionally, you agree to reimburse us for any settlement reached by us or any monetary award paid by us (unless you have tendered the defense required herein) in the event any such claim, demand or potential liability is asserted, brought or commenced against us by any third party.

You agree that any claim, dispute or cause of action that may arise out of this engagement or relate, in any way, to this engagement, prior to any claim or cause of action being brought in any court or in any other proceeding, must first be brought to the attention of our Managing Partner by written notice ("Informal Dispute Notice") and you agree to give the Managing Partner at least twenty (20) days after receipt of your Informal Dispute Notice time to resolve any such claim or dispute ("Informal Dispute Procedure").

After the expiration of the Informal Dispute Procedure, you agree that any dispute not resolved must be submitted to mandatory mediation and that the parties will engage in the mediation process in good faith. The mandatory mediation process shall be initiated by a written demand given by either party to the other party in the engagement which describes the nature and basis of the dispute or disputes to be mediated and what relief and/or damages are sought. A mediation demand must be made within one hundred eighty (180) days after the Informal Dispute Notice. Mediation shall be conducted in accordance with the Commercial Mediation Rules of the American Arbitration Association existing as of the date of the mediation demand ("Mediation Rules"). The parties may agree to the selection of a mediator. However, if the parties are unable to agree to the selection of a mediator within twenty (20) days of the mediation demand (or such later time as the parties may mutually agree), such mediator shall be selected in accordance with the Mediation Rules. The Mediator selected must have a minimum of ten (10) years tax law or similar experience. You shall advance the costs of the mediation and we agree to reimburse you for one-half of such costs at the conclusion of the mediation process or as may otherwise be mutually agreed during the mediation process. The mediation shall be confidential.

Any court action or other litigation shall be conducted only within the County of New Castle, Delaware. Delaware law shall apply irrespective of any conflicts of laws rules. You agree and consent to personal jurisdiction in the federal and state courts located in New Castle County, Delaware. The parties both agree to waive any right to a trial by jury in any dispute.

Any claim or litigation arising out of this engagement, except solely for any claims by us for payment of amounts due to us under our invoices, must be commenced within the earlier of (i) one (1) year from the accrual of such claim or cause of action or (ii) one (1) year from the completion of the engagement, notwithstanding any statute of limitations or other statutory provision to the contrary. It is expressly understood that the completion of the engagement contemplated herein shall be deemed to have occurred upon delivery of our audit report to you. However, this period shall be deemed extended for ninety (90) days after the conclusion of the mediation process if the parties were engaged in the mediation process on the date that the period to commence any claim or litigation expires.

We shall not be liable for any incidental, consequential, punitive, exemplary or non-economic damages of any sort. In addition, any damages shall be limited to the amount of professional fees paid by you to us in connection with this engagement and shall not exceed such amount. Additionally, such damages shall only be required to be paid once and upon paying such damages, we shall have no further or other liability for any damages. As such, we may agree to refund to you the amount you paid for our services in this engagement and thereby discharge any further or other liability for any damages whatsoever without admitting any fault or liability.

#### **Other Matters**

An auditor is required to be "independent" under applicable professional guidelines. If, at any time, our independence is questioned, challenged or otherwise at risk, we reserve the right to immediately discontinue any further services until such time as such independence issue is resolved to our satisfaction. You agree that you

shall have no claim against us for any breach of this agreement if we, in good faith, cease performing work under this engagement due to any issue of independence.

The parties agree that no third party beneficiaries are intended to be created by this engagement or by the work performed by us in connection with this engagement. However, without limiting the applicability of all provisions in an agreement to any such person or entity under applicable law, it is expressly understood that any person or entity claiming to be a third party beneficiary of our services under this engagement shall be bound by all of the provisions of this engagement.

In the event we are required to respond to any subpoena, court order or other legal process directing us to produce documents and/or testimony (deposition, grand jury, trial or otherwise) related to knowledge or information we obtained and/or prepared related to, out of or during the course of this engagement, you agree to compensate us for all time expended by us, in the same manner as set forth above in connection with such response and to reimburse us all costs incurred in connection with such response at our usual rates in effect at such time. We will notify you of the receipt of any such subpoena, court order or other legal process, unless prohibited by law, by forwarding same to your last known address in our billing records. Unless we receive from you, at least a week before the response deadline in any such subpoena, court order or other legal process, a court order quashing or other evidence satisfactory to us in our sole discretion that such response deadline is extended, we will respond to such subpoena, court order or other legal process.

#### **Engagement Administration, Fees and Other**

We understand that your employees will prepare all cash or other confirmations we request and will locate any documents selected by us for testing.

We will provide copies of our reports to the MOT Charter School; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Barbacane, Thornton & Company LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to a regulator or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Barbacane, Thornton & Company LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies. The Government agrees to compensate us for the time we expend in connection with such response and to reimburse us for all out-of-pocket costs incurred in that regard.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the regulator. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Frank T. DeFroda, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. Our fee for these services will be at our standard hourly rates plus out-of-pocket expenses. We estimate that our fees for the above services will be \$11,650. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable upon presentation. Interest is charged at a rate of 1½ percent per month on past due invoices. In accordance with our firm policies, work may be suspended if your account becomes 90 days or more overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination. The suspension or termination of our work may result in adverse consequences to you including your failure to meet deadlines imposed by

governments, lenders or other third parties. You agree that we will not be responsible for your failure to meet such deadlines, or for penalties or interest that may be assessed against you resulting from such failure. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. The fee does not include a single audit in accordance with OMB Circular A-133. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

You may request that we perform additional services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

This engagement letter is contractual in nature and includes all of the relevant terms that will govern the engagement for which it has been prepared. The terms of this letter supersede any prior or contemporaneous oral or written discussions, negotiations, representations, promises or commitments by or between the parties. Any modifications, changes or additions to the terms set forth in this letter will only become effective if evidenced by a writing signed or transmitted by the party against whom such amendment or modification is sought to be enforced clearly indicating assent to such amendment or modification.

*Government Auditing Standards* require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2011 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the MOT Charter School and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

  
BARBACANE, THORNTON & COMPANY LLP

/nr/b

Enclosure

RESPONSE:

This letter correctly sets forth the understanding of the MOT Charter School.

Approved by \_\_\_\_\_  
Meryl Hewett, Business Manager

Date \_\_\_\_\_

Approved by \_\_\_\_\_  
Linda Jennings, Head of School

Date \_\_\_\_\_