

METHOD SCHOOLS CORPORATION

AUDIT REPORT



**FOR THE YEAR ENDED
JUNE 30, 2016**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA PUBLIC CHARTER SCHOOL**

Method Schools (Charter No. 1617)
Method Schools K – 8 (Charter No. 1698)
Method Schools High School (Charter No. 1697)

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

METHOD SCHOOLS CORPORATION
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JUNE 30, 2016

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Method Schools Corporation
El Cajon, California

Report on the Financial Statements

We have audited the accompanying financial statements of Method Schools Corporation (the "Corporation") which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

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State Board of Accountancy*

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Method Schools Corporation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Method Schools Corporation taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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. In our opinion, the information is fairly stated in all material respects in relation to the 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 December 11, 2016, on our consideration of the Charter'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 Charter's internal control over financial reporting and compliance.

Christy White Associates

San Diego, California
December 11, 2016

METHOD SCHOOLS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets

Cash and cash equivalents	\$	342,628
Accounts receivable		142,863
Other current assets		<u>7,832</u>
Total current assets		<u>493,323</u>

Capital assets

Leasehold improvements		37,000
Less accumulated depreciation		<u>(14,800)</u>
Total capital assets, net		<u>22,200</u>
Total Assets	\$	<u>515,523</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$	361,719
Loans payable		<u>560,930</u>
Total liabilities		<u>922,649</u>

Net assets

Unrestricted		(431,190)
Temporarily restricted		<u>24,064</u>
Total net assets		<u>(407,126)</u>
Total Liabilities and Net Assets	\$	<u>515,523</u>

The notes to the financial statements are an integral part of this statement.

METHOD SCHOOLS CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Temporarily		
	Unrestricted	Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 1,026,918	\$ -	\$ 1,026,918
Federal revenues	189,841	-	189,841
Other state revenues	136,468	24,064	160,532
Total federal and state support and revenues	<u>1,353,227</u>	<u>24,064</u>	<u>1,377,291</u>
Local support and revenues			
Payments in lieu of property taxes	33,832	-	33,832
Other local revenues	24,124	-	24,124
Total local support and revenues	<u>57,956</u>	<u>-</u>	<u>57,956</u>
Total Support and Revenues	<u>1,411,183</u>	<u>24,064</u>	<u>1,435,247</u>
EXPENSES			
Program services	1,148,692	-	1,148,692
Management and general	365,543	-	365,543
Total Expenses	<u>1,514,235</u>	<u>-</u>	<u>1,514,235</u>
CHANGE IN NET ASSETS	(103,052)	24,064	(78,988)
Net Assets - Beginning	<u>(328,138)</u>	<u>-</u>	<u>(328,138)</u>
Net Assets - Ending	<u>\$ (431,190)</u>	<u>\$ 24,064</u>	<u>\$ (407,126)</u>

The notes to the financial statements are an integral part of this statement.

METHOD SCHOOLS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				Management and General	Total
	Method	Method	Method	Total		
	Schools	Schools	Schools			
	K - 8	High School				
EXPENSES						
Personnel expenses						
Certificated salaries	\$ 173,787	\$ 156,668	\$ 123,836	\$ 454,291	\$ -	\$ 454,291
Classified salaries	25,250	22,093	15,781	63,124	120,762	183,886
Payroll taxes	21,475	18,564	12,613	52,652	12,030	64,682
Health and welfare benefits	15,579	13,467	9,151	38,197	8,728	46,925
Total personnel expenses	236,091	210,792	161,381	608,264	141,520	749,784
Non-personnel expenses						
Books and supplies	62,491	11,803	61,295	135,589	-	135,589
Insurance	4,254	4,254	4,253	12,761	12,759	25,520
Facilities	127,075	62,312	60,247	249,634	31,172	280,806
Professional services	83,764	7,400	10,189	101,353	117,485	218,838
Depreciation	-	-	-	-	7,400	7,400
Payments to authorizing agencies	7,128	-	-	7,128	32,243	39,371
Other operating expenses	16,924	8,746	8,293	33,963	22,964	56,927
Total non-personnel expenses	301,636	94,515	144,277	540,428	224,023	764,451
Total Expenses	\$ 537,727	\$ 305,307	\$ 305,658	\$ 1,148,692	\$ 365,543	\$ 1,514,235

The notes to the financial statements are an integral part of this statement.

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (78,988)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	7,400
(Increase) decrease in operating assets	
Accounts receivable	(129,106)
Other current assets	5,431
Increase (decrease) in operating liabilities	
Accounts payable	249,276
Deferred revenue	(41,639)
Net cash provided by (used in) operating activities	<u>12,374</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Draws on loans payable	400,000
Principal payments on loans payable	(156,586)
Net cash provided by (used in) financing activities	<u>243,414</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	255,788
Cash and cash equivalents - Beginning	<u>86,840</u>
Cash and cash equivalents - Ending	<u>\$ 342,628</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid on interest	<u>\$ 17,084</u>

The notes to the financial statements are an integral part of this statement.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Method Schools Corporation (the “Corporation”) was formed as a nonprofit public benefit corporation on July 18, 2013 for the purpose of operating public schools. The Corporation operates three California public schools: Method Schools, Method Schools K – 8 and Methods Schools High School; referred to collectively as the “Charters”. The school year ended June 30, 2016, was the first year of school operations for Method Schools K-8 and Method Schools High School. Information on each of the Charters is as follows:

<u>Charter School</u>	<u>Classes Began</u>	<u>Grades Served</u>	<u>Charter Number</u>	<u>County</u>
Method Schools	9/12/2013	K - 12	1617	San Diego
Method Schools K - 8	8/1/2015	K - 8	1698	Los Angeles
Method Schools High School	8/1/2015	9 - 12	1697	Los Angeles

Method Schools is authorized to operate as a charter school through the Dehesa School District in San Diego County. On August 21, 2014, the Board of Directors of the Dehesa School District approved a charter petition for the Charter for a five year term beginning July 1, 2014 and expiring on June 30, 2019. Method Schools K – 8 and Method Schools High School are both authorized by the Acton Agua Dulce Unified School District in Los Angeles County. The charter petitions approved by the Acton Agua Dulce Unified School District are for a five year term beginning July 1, 2015 and expiring on June 30, 2020.

The mission of Method Schools Corporation is to provide innovative tools and educational practices to maximize personalization and empower students to become problem solvers, effective communicators, critical thinkers and creative innovators. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and other state and federal grants.

B. Basis of Accounting

The Charter’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

Method Schools Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management’s discretion in carrying out the activities of the organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support operations. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in The Charter’s financial statement presentation.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management's estimates.

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. Cash and Investments

Method Schools Corporation considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. The Charter's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities.

H. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Corporation establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2016, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capital Assets

Method Schools Corporation has not yet adopted a policy to capitalize asset purchases; therefore \$5,000 as implemented by the Charter's authorizing agency will be used. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or is requiring the Corporation to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method.

J. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

K. Income Taxes

Method Schools Corporation is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Corporation is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Corporation is not required to register with the California Attorney General as a charity.

The Corporation's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Corporation's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

L. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2016, consist of the following:

Cash in county treasury	\$ 95,342
Cash in banks, non-interest bearing	247,286
Total Cash and Cash Equivalents	\$ 342,628

Cash in County Treasury

Method Schools (Charter No. 1617) is a voluntary participant in an external investment pool with the San Diego County Treasurer. The fair value of the school's investment in the pool is reported in the financial statements at amounts based upon the school's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

Except for investments by trustees of debt proceeds, the authority to invest school funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the California Government Code:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Cash in Banks – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Method Schools Corporation does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2016, Method Schools Corporation's bank balance was not exposed to custodial credit risk as there were no deposits over \$250,000 in interest bearing accounts at any one insured bank.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 consists of the following:

Federal sources	\$ 70,182
State sources (non-LCFF)	
Special education entitlements	41,308
Lottery apportionment	16,108
California Clean Energy Jobs Act	15,265
Total state receivables	<u>72,681</u>
Total Accounts Receivable	<u>\$ 142,863</u>

NOTE 4 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2016, consists of the following:

Overpayment of revenues	\$ 299,540
Due to authorizing agencies	12,548
Accrued payroll expenses	7,052
Credit card payable	4,246
Vendor payables	38,333
Total Accounts Payable	<u>\$ 361,719</u>

NOTE 5 – LOANS PAYABLE

Activity on loans payable during the fiscal year ended June 30, 2016, consists of the following:

	Balance				Balance
	July 1, 2015	Draws	Payments		June 30, 2016
Charter revolving loans	\$ 200,000	\$ 400,000	\$ 50,000	\$	550,000
Unsecured loan	17,516	-	6,586	\$	10,930
Secured loan	100,000	-	100,000	\$	-
Total Loans Payable	<u>\$ 317,516</u>	<u>\$ 400,000</u>	<u>\$ 156,586</u>	<u>\$</u>	<u>560,930</u>

Charter Revolving Loans

In June 2014, the Method Schools was approved to borrow \$250,000 through the Charter School Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The CSFA disbursed the funds on June 18, 2014. The loan is to be repaid over a five-year period, which began in September 2014 and will end September 2018. The revolving note bears an annualized interest rate equal to the “prime rate” of 0.22%. As of June 30, 2016, the outstanding balance on the loan was \$150,000.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 5 – LOANS PAYABLE (continued)

Charter Revolving Loans (continued)

In June 2015, Method Schools K – 8 and Method Schools High School were each approved to borrow \$200,000 through the Charter School Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The CSFA disbursed the funds on June 26, 2015. The loan is to be repaid over a five-year period, which began in September 2015 and will end March 2020. The revolving note bears an annualized interest rate equal to the “prime rate” of 0.30%. As of June 30, 2016, the outstanding balance on the loan was \$200,000 for Method Schools K – 8 and \$200,000 for Method Schools High School.

Repayment obligations on the Charter Revolving Loans are as follows:

Fiscal Year Ending June 30,	Method Schools	Method Schools K - 8	Method Schools High School	Total
2016	\$ 50,000	\$ 50,000	\$ 50,000	\$ 150,000
2017	50,000	50,000	50,000	150,000
2018	50,000	50,000	50,000	150,000
2019	-	50,000	50,000	100,000
Charter Revolving Loan Payable	\$ 150,000	\$ 200,000	\$ 200,000	\$ 550,000

Unsecured Loans Payable

In May 2014, the Corporation received \$35,000 as a small business loan from Proper Lending, LLC with an interest rate of 11.19% payable over a three-year term. In association with the loan, \$1,400 was paid in closing fees. The funding was used to aid in start-up costs for charter school operations. During the fiscal year ended June 30, 2016, total principal payments of \$6,586 were made reducing the outstanding debt for this loan to \$10,930 at June 30, 2016. Future annual payments are estimated as \$10,930 for 2016-17.

Secured Loans Payable

In May 2015, the Corporation entered into a receivable purchase agreement with Charter Asset Management Fund, LP. (the “purchaser”), whereby the Corporation requested \$100,000 in funds. In return for receiving such funds, the Corporation granted title and interest of future state apportionment revenues to the purchaser. The purpose of the agreement was for short-term borrowing to aid in cash flow for current charter school operations. The transfers from the purchaser to the Corporation were considered loans secured by future receivables due to the Method Schools High School and Method Schools K-8. The full \$100,000 that was outstanding was repaid when apportionment from local control funding formula sources was received in October 2015. As of June 30, 2016, there was no outstanding balance attributed to the secured loans.

NOTE 6 – DONATED SERVICES AND FACILITIES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to Method Schools Corporation in an effort to advance programs and objectives of the Charters. These services have not been recorded in the Corporation’s financial statements because they do not meet the criteria required by generally accepted accounting principles. In accordance with generally accepted accounting principles, the Corporation has recorded donated facilities for \$23,658 related to free rent mentioned in Note 7.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Governmental Funds

Method Schools Corporation has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Operating Leases

Murrieta Office: In April 2014, the Corporation entered into a multi-tenant office lease to occupy space located in Murrieta, California. The facility is to be utilized by Method Schools for instructional services in order to meet the educational goals established by the charter school as well as Corporation administrative offices. The agreement called for a security deposit of \$7,832 upon execution, which the Corporation has recorded as a current asset. The lease agreement covers a term of five years, which commenced on August 1, 2014 is set to end July 31, 2019. In addition to monthly lease payments, the lease calls for common area maintenance (CAM) charges. The Corporation paid a total of \$118,413 in lease payments and CAM fees during the fiscal year ended June 30, 2016.

In connection with the lease agreement, the Corporation agreed to pay construction costs to the lessor for improvements. Payments were in lieu of rent payments prior to the site being occupied for use by the Charter. In 2014-15, \$37,000 was paid for construction costs, which the Corporation capitalized as leasehold improvements. Depreciation expense of \$7,400 was recorded during the fiscal year ended June 30, 2016, leaving a net book value of \$29,600 on leasehold improvements as of June 30, 2016. This amount will be amortized over the remaining term of the lease agreement.

Arcadia Office: In May 2015, the Corporation entered into a lease agreement to occupy space located in Arcadia, California. The facility is utilized by the Charters as a learning resource center. The agreement allowed for the space to be occupied for instructional operations beginning on July 1, 2015. The lease is for a five-year term expiring on June 30, 2020. Terms of the agreement allowed for free rent in the months of August and September 2015 as well as June and August 2016. Base rent is set at \$11,829 per month for 2015-16 and increases at a rate of three percent per year. During the fiscal year ended June 30, 2016, the Corporation paid a total of \$106,460 in lease payments attributed to this lease agreement. As mentioned in Note 6, \$23,658 has been recorded in 2015-16 to properly recognize the free rent for which the Corporation occupied during August and September 2015.

Future minimum payments attributed to the above mentioned operating leases are as follows:

Fiscal Year Ended June 30,	Payment
2017	\$ 254,278
2018	288,704
2019	297,459
2020	171,654
Future Minimum Payments	\$ 1,150,208

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The charter schools have made such election. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and non-certificated employees in the positions of Business Manager and Director are members of the California Public Employees' Retirement System (CalPERS). The Charter also offers all employees an alternative plan who may not qualify for CalSTRS or CalPERS retirement plans

As established by federal law, all public sector employees who are not members of their employer's existing retirement plan (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter offers social security and all employees are eligible to participate in the plan. During the fiscal year ended June 30, 2016, neither the employees of the Corporation nor the Corporation itself made contributions to the plans. Social security payments and withholdings were made in lieu of CalSTRS and CalPERS required contributions as participation in the plan is pending.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Corporation makes payments to the authorizing agencies, Dehesa School District and Acton Agua Dulce Unified School District, to provide required services for special education in addition to fees for oversight. Fees associated with oversight consist of one percent of revenue from local control funding formula sources generated by each charter school. Total fees paid to the authorizing agencies for oversight amounted to \$32,243 for the fiscal year ending June 30, 2016. Of this amount \$24,323 was paid to Dehesa School District for Method Schools and \$7,920, was payable to Acton Agua Dulce Unified School District for Method Schools K – 8 and Method Schools High School.

The Charters also hold memorandum of understanding (MOU) agreements with the authorizing agencies for special education services. Fees paid to Dehesa School District for Method Schools special education oversight amounted \$7,128, which, per the MOU, is calculated based on ten percent of federal and state special education funding. A total of \$71,284 in federal and state special education apportionments were passed through the Dehesa School District to Method Schools. No fees were billed to Method Schools K – 8 or Method Schools High School by Acton Agua Dulce Unified School District for 2015-16. A total of \$9,064 in state special education apportionment was passed through this school district to the Charters.

NOTE 10 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2016 consisted of unspent revenues from the following State imposed restricted funding sources:

California Clean Energy Jobs Act	\$	15,265
Educator Effectiveness Program		8,799
Total Temporarily Restricted Net Assets	\$	24,064

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2016

NOTE 10 – NET ASSETS (continued)

Unrestricted Net Assets

During the fiscal year ended June 30, 2016, the Corporation had an operating deficit of \$78,988 in addition to a beginning net asset amount of negative \$328,138. The primary factor leading to this deficit was low student enrollment during 2014-15 and 2015-16. The Corporation anticipates additional revenues for 2016-17 due to increased enrollment and eligibility for additional restricted funding sources with no expectation to increase expenditures for the second year of operation for the Los Angeles Charters. One-time start-up costs were expected for the Charters' first years of operation that will not continue for 2016-17. The Corporation has also implemented a corrective action plan to reduce expenditures and increased efforts for student recruitment.

NOTE 11 – SUBSEQUENT EVENTS

Method Schools Corporation has evaluated subsequent events for the period from June 30, 2016 through December 11, 2016, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

METHOD SCHOOLS CORPORATION
STATEMENT OF FINANCIAL POSITION BY CHARTER
JUNE 30, 2016

	<i>California Public Charter Schools</i>			Total
	<i>No. 1617</i>	<i>No. 1698</i>	<i>No. 1697</i>	
		Method	Method	
	Method	Schools	Schools	
	Schools	K - 8	High School	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 101,656	\$ 62,908	\$ 178,064	\$ 342,628
Accounts receivable	58,155	46,011	38,697	142,863
Other current assets	7,832	-	-	7,832
Total current assets	167,643	108,919	216,761	493,323
Capital assets				
Property and equipment	37,000	-	-	37,000
Less accumulated depreciation	(14,800)	-	-	(14,800)
Capital assets, net	22,200	-	-	22,200
Total Assets	\$ 189,843	\$ 108,919	\$ 216,761	\$ 515,523
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 21,025	\$ 113,987	\$ 226,707	\$ 361,719
Loans payable	160,930	200,000	200,000	560,930
Total liabilities	181,955	313,987	426,707	922,649
Net assets				
Unrestricted	(16,176)	(205,068)	(209,946)	(431,190)
Temporarily restricted	24,064	-	-	24,064
Total net assets	7,888	(205,068)	(209,946)	(407,126)
Total Liabilities and Net Assets	\$ 189,843	\$ 108,919	\$ 216,761	\$ 515,523

See accompanying note to supplementary information.

METHOD SCHOOLS CORPORATION
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2016

	<i>California Public Charter Schools</i>			Total
	<i>No. 1617</i>	<i>No. 1698</i>	<i>No. 1697</i>	
		Method	Method	
	Method	Schools	Schools	
	Schools	K - 8	High School	
UNRESTRICTED SUPPORT AND REVENUES				
Federal and state support and revenues				
Local control funding formula, state aid	\$ 814,439	\$ 135,414	\$ 77,065	\$ 1,026,918
Federal revenues	57,451	36,563	95,827	189,841
Other state revenues	121,943	9,448	5,077	136,468
Total federal and state support and revenues	993,833	181,425	177,969	1,353,227
Local support and revenues				
Payments in lieu of property taxes	20,033	9,157	4,642	33,832
Other local revenues	466	11,829	11,829	24,124
Total local support and revenues	20,499	20,986	16,471	57,956
Total Unrestricted Support and Revenues	1,014,332	202,411	194,440	1,411,183
EXPENSES				
Program services	537,727	305,307	305,658	1,148,692
Management and general	164,643	102,172	98,728	365,543
Total Expenses	702,370	407,479	404,386	1,514,235
Increase (decrease) in Unrestricted Net Assets	311,962	(205,068)	(209,946)	(103,052)
RESTRICTED SUPPORT AND REVENUES				
Other state revenues	24,064	-	-	24,064
Total Restricted Support and Revenues	24,064	-	-	24,064
Increase (decrease) in Temporarily Restricted Net Assets	24,064	-	-	24,064
CHANGE IN NET ASSETS	336,026	(205,068)	(209,946)	(78,988)
Net Assets - Beginning	(328,138)	-	-	(328,138)
Net Assets - Ending	\$ 7,888	\$ (205,068)	\$ (209,946)	\$ (407,126)

See accompanying note to supplementary information.

METHOD SCHOOLS CORPORATION
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2016

Method Schools Corporation is a nonprofit public benefit corporation that formed on July 18, 2014 and currently operates three state board approved charter schools (the “Charters”). All Charters offer non-classroom based instruction. Information on each of the Charters is as follows:

Charter School	Classes Began	Grades Served	Charter Number	County
Method Schools	9/12/2013	K - 12	1617	San Diego
Method Schools K - 8	8/1/2015	K - 8	1698	Los Angeles
Method Schools High School	8/1/2015	9 - 12	1697	Los Angeles

Method Schools is authorized to operate as a charter school through the Dehesa School District in San Diego County and Method Schools K-8 and Method Schools High School are authorized by the Acton Agua Dulce Unified School District in Los Angeles County. The Charters are governed by the following Board of Directors of the Method Schools Corporation:

BOARD OF DIRECTORS

Name	Office	Term Expiration
Steven Dorsey	Board President	June 30, 2017
Shannon Clark	Vice President	June 30, 2017
Tyler Roberts	Treasurer	June 30, 2017
Gloria Vargas	Secretary	June 30, 2017

ADMINISTRATION

Jessica Venezia
Chief Executive Officer

Mark Holley
Chief Financial Officer

METHOD SCHOOLS CORPORATION
SCHEDULE OF AVERAGE DAILY ATENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

The Charters had no average daily attendance (ADA) for classroom-based instruction in 2015-16.

	Nonclassroom-Based			
	Second Period Report	Second Period Report After Audit Finding Adjustments*	Annual Report	Annual Report After Audit Finding Adjustments*
Method Schools				
Regular ADA				
Grades K - 3	4.43	4.42	4.97	4.97
Grades 4 - 6	27.81	27.79	27.12	27.11
Grades 7 - 8	23.44	23.39	23.79	23.75
Grades 9 - 12	47.43	46.70	47.34	45.54
Total Average Daily Attendance - Nonclassroom-Based	103.11	102.30	103.22	101.37
Method Schools K - 8				
Regular ADA				
Grades TK/K - 3	2.59	2.59	2.86	2.86
Grades 4 - 6	11.85	11.78	11.06	11.00
Grades 7 - 8	4.16	4.16	3.66	3.66
Total Average Daily Attendance - Nonclassroom-Based	18.60	18.53	17.58	17.52
Method Schools High School				
Regular ADA				
Grades 9 - 12	9.43	9.01	9.77	8.97
Total Average Daily Attendance - Nonclassroom-Based	9.43	9.01	9.77	8.97

**Adjustments include the combined net effect on ADA noted in Findings 2016-1 and 2016-2*

METHOD SCHOOLS CORPORATION
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
JUNE 30, 2016

	<i>No. 1617</i>
	<u>Method Schools</u>
June 30, 2016, fund balance per alternative form	<u>\$ (7,377)</u>
Adjustments:	
Increase (decrease) in total net assets:	
Unrecorded other state revenues	<u>15,265</u>
June 30, 2016, net assets per audited financial statements	<u>\$ 7,888</u>

There were no adjustments made to reconcile the fund balance reported on the Financial Report – Alternative Forms to net assets per the audited financial statements for the year ended June 30, 2016 for the following charter schools:

Method Schools K – 8 (Charter No. 1698)
Method Schools High School (Charter No. 1697)

METHOD SCHOOLS CORPORATION
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

A. Statements by Charter

Method Schools Corporation statements of financial position and activities by charter provide information supporting the amounts incorporated in the Corporation’s financial statements.

B. Charter Organizational Structure

This schedule provides information about the Charter’s authorizing agency, grades served, members of the governing body, and members of the administration.

C. Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

D. Reconciliation of Annual Financial Report – Alternative Form and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form to net assets on the audited financial statements.

**OTHER INDEPENDENT AUDITORS'
REPORTS**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Independent Auditors' Report

To the Board of Directors of
Method Schools Corporation
El Cajon, California

We have audited, 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, the financial statements of Method Schools Corporation (the "Corporation") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated December 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Christy White, CPA

Michael Ash, CPA

Heather Rubio

SAN DIEGO
LOS ANGELES
SAN FRANCISCO/BAY AREA

Corporate Office:
348 Olive Street
San Diego, CA 92103

toll-free: 877.220.7229
tel: 619.270.8222
fax: 619.260.9085
www.christywhite.com

*Licensed by the California
State Board of Accountancy*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White Associates

San Diego, California
December 11, 2016

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael Ash, CPA

Heather Rubio

To the Board of Directors of
Method Schools Corporation
El Cajon, California

Report on State Compliance

We have audited Method Schools Corporation's compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* issued by the California Education Audit Appeals Panel that could have a direct and material effect on each of Method Schools Corporation's state programs for the fiscal year ended June 30, 2016, as identified below. Reference to Method Schools Corporation within this letter is inclusive of Method Schools, Method Schools K – 8, and Method Schools High School.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Method Schools Corporation's state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about Method Schools Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Method Schools Corporation's compliance with those requirements.

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Opinion on State Compliance

In our opinion, Method Schools Corporation complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as Findings 2016-1 and 2016-2. Our opinion on state compliance is not modified with respect to these matters.

Method Schools Corporation’s response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Method Schools Corporation’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Method Schools Corporation’s compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
Educator Effectiveness	Not applicable
California Clean Energy Jobs Act	Not applicable*/No
After School Education and Safety Program:	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Course Based	Not applicable
Immunizations	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	Not applicable
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Not applicable
Charter School Facility Grant Program	Not applicable

**California Clean Energy Jobs Act was not applicable to Method Schools K – 8 and Method Schools High School.*

Procedures were not performed for California Clean Energy Jobs Act for Method Schools because no expenditures were made during 2015-16 with this funding source.

Christy White Associates

San Diego, California
December 11, 2016

**FINDINGS AND QUESTIONED COSTS
SECTION**

**METHOD SCHOOLS CORPORATION
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

*Not applicable because the Corporation did not expend \$750,000
in federal expenditures in fiscal year 2015-16.*

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

**METHOD SCHOOLS CORPORATION
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no financial statement findings for the year ended June 30, 2016.

**METHOD SCHOOLS CORPORATION
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
42000	Charter School Facilities Programs
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

FINDING 2016-1: ATTENDANCE REPORTING (10000)

Criteria: In accordance with Title 5, California Code of Regulations, Section 11960, regular average daily attendance (ADA) shall be computed by dividing a charter school's total number of pupil-days of attendance by the number of calendar days on which school was actually taught in the charter school. Auditors are required to verify compliance with California Education Code Section 47612 in Section AA of the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* with regards to reporting of the correct number of school days taught in the fiscal year on the Annual attendance report.

Condition: Based on our procedures over attendance reporting for the charter schools, we noted the following:

- a) ADA did not appear to be correctly reported on P-2 attendance reports for Track A at **Method Schools** as data did not agree to system generated reports for the P-2 period. System generated reports for the Track A P-2 period indicated 0.20 ADA for grades K – 3 and 21.14 ADA for grades 9 – 12 yet ADA reported for each grade span was 0.21 and 21.09 ADA, respectively.
- b) ADA did not appear to be correctly reported on P-2 attendance reports for Track B at **Method Schools** as data did not agree to system generated reports for the P-2 period. System generated reports for the Track B P-2 period indicated 27.80 ADA for grades 4 – 6 and 25.71 ADA for grades 9 – 12 yet ADA reported for each grade span was 27.81 and 26.34 ADA, respectively.
- c) ADA did not appear to be correctly reported on Annual attendance reports in total at **Method Schools** and **Methods High School**. For **Method Schools**, system generated reports for the full year indicated 45.68 ADA for grades 9 – 12 for all tracks yet ADA reported for this grade span was 47.34 ADA on the Annual attendance report (all tracks). For **Method Schools High School**, system generated reports for the full year indicated 9.31 ADA for grades 9 – 12 for all tracks yet ADA reported for this grade span was 9.77 ADA on the Annual attendance report (all tracks).
- d) The Annual attendance reports noted 180 total days of school operation for Track A but the actual days totaled 178 during the 2015-16 school year. This incorrect reporting of school days for Track A occurred on Annual attendance reports for **Method Schools High School** (No. 1697).
- e) The Annual attendance reports noted 175 total days of school operation for Track B but the actual days totaled 180 during the 2015-16 school year. This incorrect reporting of school days for Track B occurred on Annual attendance reports for **Method Schools** (No. 1617), **Method Schools K-8** (No. 1698), and **Method Schools High School** (No. 1697).

METHOD SCHOOLS CORPORATION
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2016-1: ATTENDANCE REPORTING (10000), continued

Cause: Changes or revisions were made to the school day calendar. Corrections were not made to attendance days within the attendance accounting software until after the P-2 and Annual attendance reports were submitted.

Effect: The charter schools are not in compliance with State attendance reporting requirements. The effect of each noted attendance reporting from the above “condition” section is as follows:

- a) P-2 reported ADA for Track A at **Method Schools** was overstated by .01 ADA for grades K – 3 and understated by 0.05 ADA for grades 9 – 12.
- b) P-2 reported ADA for Track B at **Method Schools** was overstated by .01 ADA for grades 4 – 6 and overstated by 0.63 ADA for grades 9 – 12.
- c) Total Annual reported ADA for Method School was overstated by 1.66 ADA for grades 9 – 12 and total Annual reported ADA for Method Schools High School was overstated by 0.46 ADA for grades 9 – 12.
- d) The correct number of school days taught in 2015-16 reportable on the Annual attendance report is 178 for Track A at **Method Schools High School**. ADA was overstated as follows during the P-2 and Annual attendance periods.
- e) The correct number of school days taught in 2015-16 reportable on the Annual attendance report is 180 for Track B at each charter school. ADA was overstated as follows during the P-2 and Annual attendance periods.

Questioned Costs: There is no funding effect with regards to misreporting of total school days nor any questioned cost for incorrect reporting of Annual ADA; however, the questioned cost regarding P-2 ADA at **Method Schools** is as follows:

<i>Track</i>	<i>Grade Span</i>	<i>P-2 ADA</i>	<i>2015-16 Adjusted Base Grant per ADA</i>	<i>Questioned Cost</i>
<i>Track A</i>	K - 3	0.01	\$ 7,820	\$ 78
	9 - 12	(0.05)	\$ 8,801	(440)
	Total	(0.04)		\$ (362)
<i>Track B</i>	4 - 6	0.01	\$ 7,189	\$ 72
	9 - 12	0.63	\$ 8,801	5,545
	Total	0.64		\$ 5,617
<i>Total</i>	K - 3	0.01	\$ 7,820	\$ 78
	4 - 6	0.01	\$ 7,189	72
	9 - 12	0.58	\$ 8,801	5,105
	Total	0.60		\$ 5,255
Total Questioned Costs				\$ 5,255

Recommendation: We recommend that the Second Period and Annual Attendance reports be revised to reflect the correct ADA amounts for each charter school. Additionally, school calendars should be correctly input and revised within the attendance accounting software and reviewed for accuracy prior to reporting of ADA to the CDE.

METHOD SCHOOLS CORPORATION
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2016-1: ATTENDANCE REPORTING (10000), continued

Corporation Response: As Method Schools expanded operations during the 2015-16 school year – with the addition of our two Los Angeles County schools – we acknowledge a minor shortfall in our internal controls pertaining to our school calendars and multi-track attendance reconciliation. In development of our new schools and continued operation of our San Diego school, the administrative staff fell short in properly developing the Academic Calendars for the 2015-16 year. In our efforts of opening the schools and running multiple academic tracks for each school, we stretched our internal staff resources and did not allow them the time or resources in ensuring the attendance was accurately monitored for each individual track.

In moving forward into the 2016-17 year and beyond, the administrative staff allocated significant time in the development of each school calendar and subsequent track-calendar. Additionally, as our organization grew in size we have gained economies of scale thru hiring additional staff for the sole purpose of consistently reviewing student attendance and multi track calendar compliance. Moreover, as an organization, we were able to allocate additional resources towards staff-wide trainings on both Non-Classroom Based Attendance and attendance documentation for multi-track schools.

FINDING 2016-2: NONCLASSROOM-BASED INSTRUCTION/INDEPENDENT STUDY (10000)

Criteria: In accordance with California Education Code Section 51747.5(b), charter schools may claim apportionment credit for independent study only to the extent that time value of pupil work products as personally judged by a certificated teacher. A central element of the audit trail for charter school nonclassroom-based independent study average daily attendance (ADA) is contemporaneous records for each student identifying clearly each school day in a school calendar on which the student "engaged in required educational activities" to an extent sufficient to constitute at least one day of time value. Additionally, no ADA may be claimed from independent study until a written agreement is completed and in effect (California Education Code Sections 46300.7 and 51747(c)(8)).

Condition: In a sample of students who generated ADA through nonclassroom-based instruction/independent study for **Method Schools, Methods School K – 8, and Methods School High School**, we noted the following from our audit procedures:

- a) We found that five (5) master agreements were signed after commencement of instruction for a total of fifty-one (51) unallowable days of apportionment during the Second Period (P-2) reporting period. Four (4) of the instances were for students in grades 9 -12 at **Method Schools High School** and the remaining one (1) student was in grade 4 at **Method Schools K – 8**.
- b) For those students holding valid master agreements, we were unable to verify that students engaged in educational activities either through the online platform, work samples, or on-site attendance logs. This was noted for a total of fifteen (15) students, which resulted in a combined overstatement for all schools of fifty-four (54) days of apportionment.

METHOD SCHOOLS CORPORATION
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2016-2: NONCLASSROOM-BASED INSTRUCTION/INDEPENDENT STUDY (10000), continued

Effect: The charter schools are not in compliance with State requirements for nonclassroom-based/independent study instruction.

- a) ADA was overstated as follows during the P-2 and Annual attendance periods as a result of master agreements signed after instruction commenced:

Charter / Track	Grade Span	Invalid Days of Apportionment	P-2 ADA	Annual ADA
Method Schools K - 8				
<i>Track B</i>	4 - 6	1	0.01	0.01
	Total	1	0.01	0.01
Method Schools High School				
<i>Track A</i>	9 - 12	5	0.03	0.03
<i>Track B</i>	9 - 12	45	0.33	0.25
	Total	50	0.36	0.28
Total (all schools)		51	0.37	0.29

- b) ADA was overstated as follows during the P-2 and Annual attendance periods due to lack of support to verify student educational activities on certain apportionment days:

Charter / Track	Grade Span	Invalid Days of Apportionment	P-2 ADA	Annual ADA
Method Schools High School				
<i>Track A</i>	9 - 12	19	0.11	0.11
<i>Track B</i>	4 - 6	2	0.01	0.01
	7 - 8	7	0.05	0.04
	9 - 12	6	0.04	0.03
	Total	34	0.21	0.19
Method Schools K - 8				
<i>Track B</i>	4 - 6	9	0.07	0.05
	Total	9	0.07	0.05
Method Schools High School				
<i>Track A</i>	9 - 12	11	0.06	0.06
	Total	11	0.06	0.06
Total (all schools)		54	0.34	0.30

Cause: Records for student daily educational activities were not reconciled to data within the attendance accounting software and system information was not further reviewed and verified by a certificated personnel.

METHOD SCHOOLS CORPORATION
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2016-2: NONCLASSROOM-BASED INSTRUCTION/INDEPENDENT STUDY (10000), continued

Questioned Cost: The fiscal impact is approximately \$5,982 for all schools as calculated in the table below:

<i>Charter / Track</i>	<i>Grade Span</i>	<i>P-2 ADA</i>	<i>Annual ADA</i>	<i>2015-16 Adjusted Base Grant per ADA</i>	<i>Questioned Cost</i>
Method Schools					
	4 - 6	0.01	0.01	\$ 7,189	\$ 72
	7 - 8	0.05	0.04	\$ 7,820	391
	9 - 12	0.15	0.14	\$ 8,801	1,320
	Total	0.21	0.19		\$ 1,783
Method Schools K - 8					
	4 - 6	0.07	0.06	\$ 7,189	503
	Total	0.07	0.06		\$ 503
Method Schools High School					
	9 - 12	0.42	0.34	\$ 8,801	\$ 3,696
	Total	0.42	0.34		\$ 3,696
	Total (all schools)	0.70	0.59		\$ 5,982

Recommendation: We recommend that learning logs within the accounting software be utilized to track daily student attendance as determined by certificated staff by reviewing and signing learning logs on a timely basis. Further, we recommend that said certified learning logs be reconciled to system data to ensure that any revisions are properly reflected in the attendance accounting software. We recommend all student master agreements be signed prior to commencement of instruction and that no apportionment be indicated as generated until a fully executed master agreement is on file for each student.

Corporation Response: As Method Schools expanded operations during the 2015-16 school year – with the addition of our two Los Angeles County schools – we acknowledge a minor shortfall in our internal controls pertaining to our Non-Classroom Based Attendance policies. In development of our new schools and continued operation of our San Diego school, we fell short in ensuring all staff were fully trained on the nuances, regulations and requirements with non-classroom based attendance.

In moving forward into the 2016-17 year and beyond, we have changed internal protocols to eliminate any previous knowledge and/or protocol gaps in regards to student learning logs. As our organization grew in size we have gained economies of scale thru hiring additional staff for the sole purpose of consistently reviewing student attendance and learning logs. Additionally, we have been able to provide additional training and development for staff specifically targeted for Non-Classroom based attendance regulations. Furthermore, as the staff as a whole gained greater knowledge of our Student Information System, (S.I.S.), we are now able to better utilize the technology available to us by archiving learning logs and reconciling reports within the our S.I.S. This has allowed for internal fail-safes within our internal operations and organizational oversight by the administrative staff.

METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015-1: ATTENDANCE FROM NON CLASSROOM-BASED INSTRUCTION (10000)

Criteria: In accordance with *California Education Code Section 51747.5(b)*, charter schools may claim apportionment credit for independent study only to the extent that time value of pupil work products as personally judged by a certificated teacher. A central element of the audit trail for charter school nonclassroom-based independent study average daily attendance (ADA) is contemporaneous records for each student identifying clearly each school day in a school calendar on which the student "engaged in required educational activities" to an extent sufficient to constitute at least one day of time value. Additionally, no ADA may be claimed from independent study until a written agreement is completed and in effect (*California Education Code Sections 46300.7 and 51747(c)(8)*).

Condition: In a sample of ten (10) students selected for compliance testing of non-classroom based requirements, we were unable to verify educational activity either through the online platform, work samples, or on-site attendance logs for a total of forty-one (41) days of apportionment. Additionally, we also found that one (1) of the ten (10) master agreements was signed two (2) days after commencement for a total overstatement of forty-three (43) days during the Period Two (P-2) reporting period.

Effect: The Charter is not in compliance with attendance reporting requires surrounding non classroom-based independent study instruction. ADA was overstated by an estimated total of 0.35 ADA for pupils in Grades 2 – 11.

Cause: Technology issues were experienced preventing access to the online learning module for a small period of time, some student work was completed on non-school days, and records were not retained for all onsite activities. Records for student educational activities were not reconciled to data within the attendance accounting software for proper reporting of ADA.

Questioned Cost: Estimated total overpayment to the Charter was \$2,641.24 calculated as follows:

<u>Gradespan</u>	<u>Base Grant per ADA</u>	<u>Track A ADA</u>	<u>Track B ADA</u>	<u>Total ADA</u>	<u>Questioned Cost</u>
K - 3	\$ 7,740	0.02	0.01	0.03	\$ 232.20
4 - 6	\$ 7,116	0.11	0.11	0.22	1,565.52
7 - 8	\$ 7,328	0.02	-	0.02	146.56
9 - 12	\$ 8,712	0.02	0.06	0.08	696.96
Total		0.17	0.18	0.35	\$ 2,641.24

METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015-1: ATTENDANCE FROM NON CLASSROOM-BASED INSTRUCTION (10000), continued

Recommendation: We recommend that the Charter revise its attendance to correct the days noted as overstated. We also recommend proper procedures to document student attendance for onsite activities as well as in the absence of access to the learning module be established. Also, teacher should remind students of the importance to perform assigned educational activities on school days rather than weekends.

Charter Response: Method Schools concurs to implement improved attendance documenting procedures for students who conduct on site activities. Technological issues have been resolved as increased access points have been implemented on site throughout the school facility. Teachers have been further trained on attendance tracking through the student information system and procedures have been refined on following up with students whether on or off site on logging attendance and collecting and storing samples of completed educational activities. The Master Agreement signing process has been refined as no student can begin coursework without a signed Master Agreement on file.

Current Status: Not fully implemented. Refer to Finding 2016-2.

FINDING 2015-2: UNDUPLICATED LOCAL CONTROL FUNDING FORMULA (LCFF) PUPIL COUNT (40000)

Criteria: Students classified as free or reduced price meal eligible (FRPM) and who are not directly certified on the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report must have supporting documentation that indicates the student was eligible for the determination.

Condition: Two (2) of seventeen (17) students tested from the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report who were classified as FRPM yet did not have proper documentation to support their designation. 100% of the FRPM student population was tested.

Effect: The Charter is not in compliance with state requirements. 2 of 42 (21 for 2014-15 and 21 for 2013-14) students reported in the Charter’s Unduplicated Pupil Count as being ineligible for their FRPM designation.

Cause: A lack of oversight over the CALPADS reporting process.

METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2016

FINDING 2015-2: UNDUPLICATED LCFF PUPIL COUNT (40000), continued

Questioned Costs: \$489 as calculated below:

LCFF Target Base Grant Amount and Pupil Counts		
1) Total Base Grant Amount	\$	648,770
	Section 1: UPP	Section 2: UPP
2) Total Enrollment Count from Unduplicated Pupil Percentage Exhibit	160	80
3) Unduplicated Pupil Count from Unduplicated Pupil Percentage Exhibit	42	21
Unduplicated Pupil Percentage Adjustment		
4) Unduplicated Pupil Count	42	21
5) Number of Unduplicated Pupil Count Adjustment (plus or minus)	(2)	(2)
6) Adjusted Unduplicated Pupil Count	40	19
7) Unduplicated Pupil Percentage calculated at P-2	26.25%	26.25%
8) Adjusted Unduplicated Pupil Percentage	25.00%	23.75%
9) Funded UPP (Greater of Section 1 or 2)	25.00%	
Target Supplemental Audit Adjustment		
10) Target supplemental grant funding calculated at P-2	34,060	-
11) Adjusted target supplemental grant funding	32,439	-
12) Target supplemental audit adjustment	(1,622)	-
Target Concentration Audit Adjustment		
13) Target Concentration grant funding calculated at P-2	-	-
14) Adjusted target concentration grant funding	-	-
15) Target concentration audit adjustment	-	-
Value of Adjustment in Current Year		
16) Total target supplemental and concentration audit adjustment	(1,622)	-
17) Statewide gap funding rate	30.16%	30.16%
18) Estimated value of unduplicated pupil count audit adjustment for 2014-15	\$ (489)	-

**METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINDING 2015-2: UNDUPLICATED LCFF PUPIL COUNT (40000), continued

Recommendation: We recommend that the Charter ensure that all students listed as FRPM in the CALPADS 1.18 FRPM/English Learner/Foster Youth – Student List Report have supporting documentation to support their CALPADS designation.

Charter Response: Method Schools concurs to improve procedures in collecting FRPM forms for each enrolled student. The Operations Manager has refined procedures in collecting FRPM forms by creating an automated block to completing a student enrollment until the FRPM form has been received.

Current Status: Implemented.