

**METHOD SCHOOLS**

**Operating:**

**Method Schools  
Method Schools K-8  
Method Schools High School**

**Independent Auditor's Report  
and Financial Statements  
For the Year Ended  
June 30, 2017**

**METHOD SCHOOLS**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Method Schools  
Arcadia, CA

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Method Schools (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses 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.

Board of Directors  
Method Schools

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

### **Opinion**

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the School as of June 30, 2017, 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 School's financial statements as a whole. The columns by school as presented in the statements of financial position, activities and cash flows and the accompanying supplementary schedules are presented for purposes of additional analysis and are 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 a report dated August 30, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Glendora, CA

August 30, 2017

**METHOD SCHOOLS**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2017**

	<b>Method Schools</b>	<b>Method Schools K-8</b>	<b>Method Schools High School</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ 721,756	\$ -	\$ 339,621	\$ 1,061,377
Accounts receivable	70,930	166,159	72,124	309,213
Prepaid expenses and other assets	15,232	-	-	15,232
Total current assets	<u>807,918</u>	<u>166,159</u>	<u>411,745</u>	<u>1,385,822</u>
<b>LONG-TERM ASSETS:</b>				
Property, plant and equipment, net	7,400	-	-	7,400
Total long-term assets	<u>7,400</u>	<u>-</u>	<u>-</u>	<u>7,400</u>
Total assets	<u>\$ 815,318</u>	<u>\$ 166,159</u>	<u>\$ 411,745</u>	<u>\$ 1,393,222</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>				
<b>CURRENT LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 292,926	\$ 215,544	\$ 248,878	\$ 757,348
Deferred rent liability	29,195	7,507	25,129	61,831
Revolving loan payable, current portion	50,000	50,000	50,000	150,000
Total current liabilities	<u>372,121</u>	<u>273,051</u>	<u>324,007</u>	<u>969,179</u>
<b>LONG-TERM LIABILITIES:</b>				
Deferred rent liability	21,305	2,178	7,295	30,778
Revolving loan payable	50,000	100,000	100,000	250,000
Total long-term liabilities	<u>71,305</u>	<u>102,178</u>	<u>107,295</u>	<u>280,778</u>
<b>NET ASSETS:</b>				
Unrestricted	371,892	(209,070)	(19,557)	143,265
Total net assets	<u>371,892</u>	<u>(209,070)</u>	<u>(19,557)</u>	<u>143,265</u>
Total liabilities and net assets	<u>\$ 815,318</u>	<u>\$ 166,159</u>	<u>\$ 411,745</u>	<u>\$ 1,393,222</u>

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

## METHOD SCHOOLS

### STATEMENT OF ACTIVITIES For the Year Ended June 30, 2017

	<u>Method Schools</u>	<u>Method Schools K-8</u>	<u>Method Schools High School</u>	<u>Total</u>
<b>REVENUES:</b>				
State revenue:				
State aid	\$ 1,666,493	\$ 167,220	\$ 634,382	\$ 2,468,095
Other state revenue	236,452	15,426	111,324	363,202
Federal revenue:				
Grants and entitlements	92,633	213,437	52,923	358,993
Local revenue:				
In-lieu property tax revenue	26,176	9,542	31,192	66,910
Other revenue	1,233	185	163	1,581
Total revenues	<u>2,022,987</u>	<u>405,810</u>	<u>829,984</u>	<u>3,258,781</u>
<b>EXPENSES:</b>				
Program services	1,344,258	295,745	526,986	2,166,989
Management and general	314,725	114,067	112,609	541,401
Total expenses	<u>1,658,983</u>	<u>409,812</u>	<u>639,595</u>	<u>2,708,390</u>
Change in unrestricted net assets	364,004	(4,002)	190,389	550,391
Beginning unrestricted net assets	<u>7,888</u>	<u>(205,068)</u>	<u>(209,946)</u>	<u>(407,126)</u>
Ending unrestricted net assets	<u>\$ 371,892</u>	<u>\$ (209,070)</u>	<u>\$ (19,557)</u>	<u>\$ 143,265</u>

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

**METHOD SCHOOLS**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended June 30, 2017**

	<b>Method Schools</b>	<b>Method Schools K-8</b>	<b>Method Schools High School</b>	<b>Total</b>
<b>CASH FLOWS from OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 364,004	\$ (4,002)	\$ 190,389	\$ 550,391
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Depreciation	7,400	-	-	7,400
Amortization	7,400	-	-	7,400
Change in operating assets:				
Accounts receivable	(12,775)	(120,148)	(33,427)	(166,350)
Prepaid expenses and other assets	(7,400)	-	-	(7,400)
Change in operating liabilities:				
Accounts payable and accrued liabilities	271,901	101,557	22,171	395,629
Deferred rent liability	50,500	9,685	32,424	92,609
Net cash flows from operating activities	681,030	(12,908)	211,557	879,679
<b>CASH FLOWS from FINANCING ACTIVITIES:</b>				
Repayments of debt	(60,930)	(50,000)	(50,000)	(160,930)
Net cash flows from financing activities	(60,930)	(50,000)	(50,000)	(160,930)
Net change in cash and cash equivalents	620,100	(62,908)	161,557	718,749
Cash and cash equivalents at the beginning of the year	101,656	62,908	178,064	342,628
Cash and cash equivalents at the end of the year	\$ 721,756	\$ -	\$ 339,621	\$ 1,061,377
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Cash paid for interest during the fiscal year	\$ 286	\$ 544	\$ 544	\$ 1,374

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

## METHOD SCHOOLS

### STATEMENT OF FUNCTIONAL EXPENSES For the Year Ended June 30, 2017

	<b>Program Services</b>	<b>Management and General</b>	<b>Total Expenses</b>
Salaries and wages	\$ 507,831	\$ 137,641	\$ 645,472
Other employee benefits	47,695	6,244	53,939
Payroll taxes	45,256	12,265	57,521
Management fees	-	95,039	95,039
Legal expenses	-	5,760	5,760
Accounting expenses	-	5,353	5,353
Instructional Materials	307,991	-	307,991
Other fees for services	715,302	157,187	872,489
Advertising and promotion expenses	68,796	-	68,796
Office expenses	-	95,094	95,094
Printing and postage expenses	1,679	-	1,679
Information technology expenses	33,144	-	33,144
Occupancy expenses	380,725	-	380,725
Travel expenses	17,280	-	17,280
Interest expense	-	19,741	19,741
Depreciation expense	7,400	-	7,400
Insurance expense	-	7,077	7,077
Other expenses	33,890	-	33,890
	<u>\$ 2,166,989</u>	<u>\$ 541,401</u>	<u>\$ 2,708,390</u>

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



## METHOD SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities* – Method Schools Corporation (the School) was formed as a nonprofit public benefit corporation on July 18, 2013 for the purpose of operating public schools. The School operates three California public schools: Method Schools, Method Schools K - 8 and Methods Schools High School. The School is economically dependent on state and federal funding.

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.

*Cash and Cash Equivalents* – The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

*Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

*Basis of Accounting* – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

*Functional Allocation of Expenses* – Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

*Basis of Presentation* – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

*Receivables* – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2017. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

## METHOD SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Net Asset Classes* – The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the School are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the School.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The School does not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the School. The School does not currently have any permanently restricted net assets.

*Contributed Assets and Services* – Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

*Capital Assets* – The School 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 School to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method.

*Property Taxes* – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

*Compensated Absences* – The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2017.

*Revenue Recognition* – Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

## METHOD SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Contributions** – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**Income Taxes** – The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

**Evaluation of Subsequent Events** – The School has evaluated subsequent events through August 30, 2017, the date these financial statements were available to be issued.

#### NOTE 2: CASH AND CASH EQUIVALENTS

**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.

**Cash in Banks** – The School maintains cash balances held in banks and revolving funds which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The School has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

## METHOD SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2017

#### NOTE 3: LONG-TERM LIABILITIES

*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%.

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%.

Repayment obligations are as follows:

Year Ended	Method		Method Schools	
June 30,	Method Schools	Schools K-8	High School	Total
2018	\$ 50,000	\$ 50,000	\$ 50,000	\$ 150,000
2019	50,000	50,000	50,000	150,000
2020	-	50,000	50,000	100,000
Total	<u>\$ 100,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 400,000</u>

#### NOTE 4: OPERATING LEASES

*Murrieta Office* – In April 2014, the School 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 School administrative offices. The agreement called for a security deposit of \$7,832 upon execution, which the School 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 School paid a total of \$123,508 in lease payments and CAM fees during the fiscal year ended June 30, 2017.

**METHOD SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 4: OPERATING LEASES**

*Arcadia Office* – In May 2015, the School entered into a lease agreement to occupy space located in Arcadia, California. The facility is utilized by the School 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. Base rent is set at \$12,183 per month for 2016-17 and increases at a rate of three percent per year. During the fiscal year ended June 30, 2017, the School paid a total of \$121,837 in lease payments attributed to this lease agreement.

Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>	
2018	\$ 465,598
2019	517,535
2020	398,333
2021	233,478
2022	240,483
Thereafter	<u>122,618</u>
Total	<u>\$ 1,978,045</u>

**NOTE 5: DISTRICT OVERSIGHT FEES AND SPECIAL EDUCATION SERVICES**

The School 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 \$95,039 for the fiscal year ending June 30, 2017.

The School also has 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 \$12,479, which, per the MOU, is calculated based on ten percent of federal and state special education funding.

**METHOD SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

**NOTE 6: CONTINGENCIES**

The School 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 disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

**SUPPLEMENTARY INFORMATION**

## **METHOD SCHOOLS**

### **LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**

**For the Year Ended June 30, 2017**

Method Schools was established in 2013 when it was granted its charter through Dehesa School District in San Diego County and its charter school status from the California Department of Education. The charter school number is 1617.

Method Schools K-8 was established in 2015 when it was granted its charter through Acton-Agua Dulce Unified School District in Los Angeles County and its charter school status from the California Department of Education. The charter school number is 1698.

Method Schools High School was established in 2015 when it was granted its charter through Acton-Agua Dulce Unified School District in Los Angeles County and its charter school status from the California Department of Education. The charter school number is 1697.



**METHOD SCHOOLS**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (continued)  
For the Year Ended June 30, 2017**

The Board of Directors and the Administrators as of the year ended June 30, 2017 were as follows:

**BOARD OF DIRECTORS**

<b><u>Member</u></b>	<b><u>Office</u></b>	<b><u>5 Year Term Expires</u></b>
Steven Dorsey	President	June 30, 2019
Shannon Clark	Vice President	June 30, 2019
Tyler Roberts	Treasurer	June 30, 2019
Gloria Vargas	Secretary	June 30, 2019

**ADMINISTRATORS**

Jessica Spallino	Chief Executive Officer
Mark Holley	Chief Financial Officer

**METHOD SCHOOLS**

**SCHEDULE OF INSTRUCTIONAL TIME  
For the Year Ended June 30, 2017**

N/A – This School is non-classroom based.

*See independent auditor's report and the notes to the supplementary information.*

**METHOD SCHOOLS**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
For the Year Ended June 30, 2017**

	<b>Second Period Report</b>		<b>Annual Report</b>	
	<b>Classroom</b>		<b>Classroom</b>	
	<b>Based</b>	<b>Total</b>	<b>Based</b>	<b>Total</b>
<b>Method Schools:</b>				
Grades TK / K-3	-	6.38	-	6.84
Grades 4-6	-	20.15	-	20.04
Grades 7-8	-	21.11	-	21.23
Grades 9-12	-	148.80	-	137.61
ADA Totals	-	196.44	-	185.72
<b>Method Schools K-8:</b>				
Grades TK / K-3	-	4.55	-	4.36
Grades 4-6	-	9.43	-	9.33
Grades 7-8	-	8.52	-	8.51
ADA Totals	-	22.50	-	22.20
<b>Method Schools High School:</b>				
Grades 9-12	-	73.54	-	65.98
ADA Totals	-	73.54	-	65.98
<b>Grand Total</b>	-	<b>292.48</b>	-	<b>273.90</b>

*See independent auditor's report and the notes to the supplementary information.*

**METHOD SCHOOLS**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017**

There were no differences between the annual financial report and the audited financial statements for the year ended June 30, 2017

*See independent auditor's report and the notes to the supplementary information.*

## METHOD SCHOOLS

### NOTES TO THE SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2017

#### **NOTE 1: PURPOSE OF SCHEDULES**

##### **Schedule of Instructional Time**

This schedule presents information on the amount of instructional time offered by the School and whether the School complied with the provisions of Education Code.

##### **Schedule of Average Daily Attendance**

Average daily attendance is a measurement of the number of pupils attending classes of the 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.

##### **Reconciliation of Annual Financial Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.



CliftonLarsonAllen

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

Board of Directors  
Method Schools  
Arcadia, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Method Schools (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated August 30, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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 entity’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 entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Glendora, CA

August 30, 2017

**INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE**

Board of Directors  
 Method Schools  
 Arcadia, CA

We have audited Method Schools’s (the School) compliance with the types of compliance requirements described in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2017. The School’s State compliance requirements are identified in the table below.

**Management’s Responsibility**

Management is responsible for the compliance with the State laws and regulations as identified below.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the School’s compliance based on our audit of the types of compliance requirements referred to below. 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 *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School’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 state compliance. Our audit does not provide a legal determination of the School’s compliance.

**Compliance Requirements Tested**

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

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes



## INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures Performed</u>
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 instructional/independent study	Yes
Determination of funding for nonclassroom-based instruction	Yes
Annual instructional minutes – classroom based	Not applicable
Charter School Facility Grant Program	Not applicable

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### **Opinion on State Compliance**

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2017.

### **Purpose of this Report**

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, CA

August 30, 2017

**METHOD SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the Year Ended June 30, 2017**

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accounting Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements or state awards for June 30, 2017.

## METHOD SCHOOLS

### STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

#### 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 Bat 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).

**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.

**Status:** Implemented.

## METHOD SCHOOLS

### STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS For the Year Ended June 30, 2017

#### **FINDING 2016-2: NONCLASSROOM-BASED INSTRUCTION/IND 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 nonclassroombased 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.

**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.

**Status:** Implemented.