



INTERNATIONAL SCHOOL OF MONTEREY

**AUDIT REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

**San Diego**

**Los Angeles**

**San Francisco  
Bay Area**

**christywhite**  
A PROFESSIONAL  
ACCOUNTANCY CORPORATION *associates*

**INTERNATIONAL SCHOOL OF MONTEREY**  
**TABLE OF CONTENTS**  
**JUNE 30, 2018**

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**FINANCIAL SECTION**

Independent Auditors' Report.....	1
Financial Statements	
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows .....	6
Notes to Financial Statements.....	7

**SUPPLEMENTARY INFORMATION SECTION**

Charter Organizational Structure .....	19
Schedule of Average Daily Attendance.....	20
Schedule of Instructional Time .....	21
Reconciliation of Financial Report – Alternative Form with Audited Financial Statements .....	22
Notes to the Supplementary Information .....	23

**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 <i>Government Auditing Standards</i> .....	24
Report on State Compliance.....	26

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditors' Results.....	28
Financial Statement Findings.....	29
State Award Findings and Questioned Costs.....	30
Summary Schedule of Prior Audit Findings and Questioned Costs.....	34

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## FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
International School of Monterey  
Seaside, California

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

We have audited the accompanying financial statements of International School of Monterey ("ISM") which comprise the statement of financial position as of June 30, 2018, 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 D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

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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 International School of Monterey as of June 30, 2018, 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 International School of Monterey 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 October 26, 2018, 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.



San Diego, California  
October 26, 2018

**INTERNATIONAL SCHOOL OF MONTEREY**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

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**ASSETS**

Current assets

Cash and cash equivalents	\$ 1,207,024
Accounts receivable	89,253
Prepaid expenses	82,566
Total current assets	<u>1,378,843</u>

Capital assets

Property and equipment	67,018
Less accumulated depreciation	<u>(56,617)</u>
Capital assets, net	<u>10,401</u>
<b>Total Assets</b>	<b><u>\$ 1,389,244</u></b>

**LIABILITIES AND NET ASSETS**

Liabilities

Accounts payable	\$ 332,684
Compensated absences	23,950
Deferred compensation	<u>77,251</u>
Total liabilities	<u>433,885</u>

Net assets

Unrestricted	805,996
Temporarily restricted	<u>149,363</u>
Total net assets	<u>955,359</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 1,389,244</u></b>

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

**INTERNATIONAL SCHOOL OF MONTEREY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES</b>			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 1,523,688	\$ -	\$ 1,523,688
Federal revenues	42,123	-	42,123
Other state revenues	277,704	-	277,704
Total federal and state support and revenues	1,843,515	-	1,843,515
Local support and revenues			
Payments in lieu of property taxes	1,592,454	-	1,592,454
Grants and donations	125,676	10,500	136,176
Investment income, net	11,348	-	11,348
Student body activities	24,571	-	24,571
Afterschool care fees	115,578	-	115,578
Other local revenues	166,797	-	166,797
Total local support and revenues	2,036,424	10,500	2,046,924
Donor restrictions satisfied	229	(229)	-
<b>Total Support and Revenues</b>	3,880,168	10,271	3,890,439
<b>EXPENSES</b>			
Program services	3,756,400	-	3,756,400
Supporting services			
Management and general	355,489	-	355,489
Fundraising	28,220	-	28,220
<b>Total Expenses</b>	4,140,109	-	4,140,109
<b>CHANGE IN NET ASSETS</b>	(259,941)	10,271	(249,670)
<b>Net Assets - Beginning</b>	1,065,937	139,092	1,205,029
<b>Net Assets - Ending</b>	\$ 805,996	\$ 149,363	\$ 955,359

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

**INTERNATIONAL SCHOOL OF MONTEREY**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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	Program Services	Management and General	Fundraising	Total
<b>EXPENSES</b>				
Personnel expenses				
Certificated salaries	\$ 1,792,969	\$ 129,133	\$ 18,448	\$ 1,940,550
Classified salaries	384,715	88,164	-	472,879
Deferred compensation	399,085	26,311	2,348	427,744
Payroll taxes	78,608	7,861	873	87,342
Other employee benefits	300,137	30,014	3,335	333,486
Total personnel expenses	2,955,514	281,483	25,004	3,262,001
Non-personnel expenses				
Books and supplies	240,679	5,966	-	246,645
Insurance	27,129	6,782	-	33,911
Occupancy	99,917	11,301	-	111,218
Professional services	166,642	35,717	2,915	205,274
Depreciation	1,053	263	-	1,316
Payments to authorizing agency	231,870	7,790	-	239,660
Other operating expenses	33,596	6,187	301	40,084
Total non-personnel expenses	800,886	74,006	3,216	878,108
<b>Total Expenses</b>	<b>\$ 3,756,400</b>	<b>\$ 355,489</b>	<b>\$ 28,220</b>	<b>\$ 4,140,109</b>

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



**INTERNATIONAL SCHOOL OF MONTEREY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ (249,670)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	1,316
(Increase) decrease in operating assets	
Accounts receivable	10,898
Prepaid expenses	(67,859)
Increase (decrease) in operating liabilities	
Accounts payable	40,088
Compensated absences	(987)
Deferred compensation	11,363
<b>Net cash provided by (used in) operating activities</b>	<u>(254,851)</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** (254,851)

**Cash and cash equivalents - Beginning** 1,461,875

**Cash and cash equivalents - Ending** \$ 1,207,024

**SUPPLEMENTARY DISCLOSURE**

Cash paid for interest	<u>\$ 826</u>
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INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

**A. Reporting Entity**

International School of Monterey (“ISM” or the “Charter”) is a nonprofit public benefit corporation, incorporated on May 26, 1998 with the mission to educate all children toward becoming conscientious, compassionate, and responsible citizens of the world. ISM operates a charter school approved by the State Board of Education in December 2001 as California Charter No. 0429.

ISM is authorized to operate as a charter school through the Monterey Peninsula Unified School District (the “authorizing agency”) serving students in kindergarten through eighth grade. On November 10, 2015, the Board of Directors of the authorizing agency approved a charter renewal for a five year term beginning July 1, 2016 and expiring on June 30, 2021.

The International School of Monterey is authorized by the International Baccalaureate as an IB World School offering the Primary Years and Middle Years Programmes. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

**B. Basis of Accounting**

ISM’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**

International School of Monterey 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 Trustees 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.

**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.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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.

F. In Lieu of Property Taxes Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the authorizing agency. In lieu of distributing funds out of property tax proceeds, the authorizing agency makes monthly payments to International School of Monterey. Revenues are recognized by ISM when earned.

G. 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.

H. Income Taxes

International School of Monterey 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. International School of Monterey is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, ISM is not required to register with the California Attorney General as a charity.

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

I. Cash and Investments

International School of Monterey considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. ISM'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.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2018, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. Capital Assets

International School of Monterey has adopted a policy to capitalize asset purchases over \$5,000. 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 ISM to hold the asset for a specified period of time. Capital assets are depreciated using the straight-line method. Depreciation is based on the following useful lives:

<u>Equipment Type</u>	<u>Useful Life in Years</u>
Classroom	5
Computer	3 – 5
Library	5
Office	5
Playground	5

L. 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.

M. New Accounting Pronouncements

**Not-for-Profit Financial Reporting Model Standard**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Charter has not yet determined the impact on the financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

M. New Accounting Pronouncements (continued)

**Revenue Recognition**

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2016-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The new requirements are to be applied to fiscal years beginning after December 17, 2017. The Charter has not yet determined the impact on the financial statements.

**Leases**

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective for public business entities for fiscal years beginning after December 15, 2018. The Charter has not yet determined the impact on the financial statements.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of the following:

Cash in county treasury	\$ 838,529
Cash in banks, non-interest bearing	368,495
<b>Total Cash and Cash Equivalents</b>	<b>\$ 1,207,024</b>

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. International School of Monterey 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, 2018, International School of Monterey's bank balance was not exposed to custodial credit risk as there were no deposits over \$250,000 at any one insured bank.

Cash in County Treasury

International School of Monterey is a voluntary participant in an external investment pool. The fair value of ISM's investment in the pool is reported in the financial statements at amounts based upon ISM'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.

**INTERNATIONAL SCHOOL OF MONTEREY**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2018**

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**NOTE 2 – CASH AND CASH EQUIVALENTS (continued)**

**Cash in County Treasury (continued)**

Except for investments by trustees of debt proceeds, the authority to invest ISM 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

The Charter maintains a pooled investment with the Monterey County Treasury with a fair value of approximately \$836,013 and an amortized book value of \$838,529. The average weighted maturity for this pool is 233 days.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2018, consists of the following:

Federal sources	\$ 11,908
State sources, non-LCFF	18,182
In-lieu property taxes	56,053
Local sources	3,110
<b>Total Accounts Receivable</b>	<b>\$ 89,253</b>

**INTERNATIONAL SCHOOL OF MONTEREY**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2018**

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**NOTE 4 – CAPITAL ASSETS**

A summary of activity related to capital assets during the year ended June 30, 2018 consists of the following:

	Beginning Balance			Ending Balance	
	July 1, 2017	Additions	Disposals	June 30, 2018	
Furniture and fixtures	\$ 55,620	\$ -	\$ -	\$ 55,620	
Building and leashold improvements	11,398	-	-	11,398	
Total at historical cost	67,018	-	-	67,018	
Less: accumulated depreciation	(55,301)	(1,316)	-	(56,617)	
<b>Capital Assets, net</b>	<b>\$ 11,717</b>	<b>\$ (1,316)</b>	<b>\$ -</b>	<b>\$ 10,401</b>	

**NOTE 5 – ACCOUNTS PAYABLE**

Accounts payable as of June 30, 2018, consists of the following:

Due to authorizing agency	\$ 208,500
Due to grantor governments	56,053
Employee retirement benefits	34,758
Payroll liabilities	6,078
Vendor payables	27,295
<b>Total Accounts Payable</b>	<b>\$ 332,684</b>

**NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets for the year ended June 30, 2018 are as follows:

Restricted state funding sources	
Proposition 39 California Clean Energy Act	\$ 138,592
Enhance academic programs emphasizing:	
Tennis program	271
Literacy support	5,500
Stage Lighting Equipment	5,000
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 149,363</b>



**INTERNATIONAL SCHOOL OF MONTEREY**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2018**

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**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

**Joint Powers Agency (JPA)**

During the year ended June 30, 2018, International School of Monterey participated in a joint venture with CharterSafe, previously the California Charter Schools Joint Powers Authority. CharterSafe arranges for insurance coverage related to property, general liability, automobile, worker's compensation, and other miscellaneous liability coverage specific to operation of a charter school. The relationship between ISM and the JPA is such that the JPA is not financially inter-related to ISM for financial reporting purposes. Premiums paid to CharterSafe totaled \$58,589 for the period ended June 30, 2018.

**Governmental Funds**

International School of Monterey 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.

**Multi-employer Defined Benefit Plan Participation**

Under current law on multiemployer defined benefit plans, the Charter's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter's proportionate share of the multiemployer plan's unfunded vested liabilities. California State Teachers' Retirement System (CalSTRS) has estimated that the Charter's share of withdrawal liability is approximately \$2,098,296 as of June 30, 2018. Also, as of June 30, 2018, California Public Employees' Retirement System (CalPERS) has estimated the Charter's share of withdrawal liability to be \$811,888. The Charter does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 9 for additional information on employee retirement plans.

**Line of Credit**

International School of Monterey holds an agreement with Pacific Valley Bank for a revolving line of credit in the amount of \$250,000. ISM had no outstanding principal balance under this line of credit as of June 30, 2018.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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NOTE 7 – COMMITMENTS AND CONTINGENCIES (continued)

**Facility Use Agreement**

On November 15, 2016, International School of Monterey entered into a facilities use agreement with the Monterey Peninsula Unified School District, the authorizing agency, beginning July 1, 2017 and ending June 30, 2022 with an automatic five-year renewal period ending June 30, 2027. The total facility charge paid by International School of Monterey to the authorizing agency during the fiscal year ended June 30, 2018 was \$97,406. Future minimum lease payments are as follows:

<u>Fiscal year ending June 30,</u>	<u>Lease Payment</u>
2019	101,302
2020	105,354
2021	109,568
2022	113,951
2023	118,509
2024 - 2028	667,559
<b>Total Future Lease Payments</b>	<b>\$ 1,216,243</b>

NOTE 8 – DONATED MATERIALS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to International School of Monterey in an effort to advance the school's programs and objectives. These services have not been recorded in ISM's financial statements because they do not meet the criteria required by generally accepted accounting principles.

NOTE 9 – 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 has made such election. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and non-certificated employees are members of the California Public Employees' Retirement System (CalPERS).

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

International School of Monterey contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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**NOTE 9 – EMPLOYEE RETIREMENT PLANS (continued)**

**Funding Policy**

Active plan members are required to contribute 10.25% or 9.205% of their 2017-18 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalSTRS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2017-18	\$ 234,842	100%
2016-17	\$ 181,194	100%
2015-16	\$ 154,415	100%

**On-Behalf Payments**

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for International School of Monterey is estimated at \$120,059, which is computed as the proportionate share of total 2016-17 State on-behalf contributions.

**California Public Employees' Retirement System (CalPERS)**

**Plan Description**

International School of Monterey contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2018

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NOTE 9 – EMPLOYEE RETIREMENT PLANS (continued)

California Public Employees Retirement System (CalPERS) (continued)

**Funding Policy**

Active plan members, who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 6.5% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

International School of Monterey is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2017-18 was 15.531%. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalPERS for the last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2017-18	\$ 72,843	100%
2016-17	\$ 60,222	100%
2015-16	\$ 52,772	100%

NOTE 10 – RELATED PARTY TRANSACTIONS

Authorizing Agency

International School of Monterey makes payments to the authorizing agency, Monterey Peninsula Unified School District, to provide required services for special education in addition to fees for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Total fees paid to the authorizing agency for oversight amounted to \$31,160 and total payments for special education and other services amounted to \$208,500 for the fiscal year ending June 30, 2018. ISM is also in an agreement with the authorizing agency for facilities usage (see Note 8).

Education Foundation

International School of Monterey receives local contributions from the International School of Monterey Foundation. The Foundation is a tax-exempt organization under IRS code section 501(c)(3) with the primary purpose of generating funding to support the International School of Monterey. The Foundation is governed by a five member board comprised of parents and other individual supporters of the Charter; including two members of the governing board for ISM. During the year ended June 30, 2018, the Foundation made \$136,368 in unrestricted contributions to ISM.

**NOTE 11 – SUBSEQUENT EVENTS**

International School of Monterey has evaluated subsequent events for the period from June 30, 2018 through October 26, 2018, 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.

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## **SUPPLEMENTARY INFORMATION SECTION**

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**INTERNATIONAL SCHOOL OF MONTEREY**  
**CHARTER ORGANIZATIONAL STRUCTURE**  
**JUNE 30, 2018**

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International School of Monterey, located in Monterey County, was formed as a nonprofit public benefit corporation in May 1998 and approved by the State Board of Education in December 2001 under Charter No. 0429. Classes began in September 2001 for grades K – 8. International School of Monterey’s charter petition was approved by the Board of Education for Monterey Peninsula Unified School District, the authorizing agency. During 2017-18, International School of Monterey served approximately 417 students.

BOARD OF TRUSTEES		
Name	Office	Term Expiration
Cristofer Cabanillas, CFP	Chair	June 2020
Patricia Adura-Miranda, J.D.	Vice Chair	June 2020
Chris Steinbruner, CPA	Treasurer	June 2019
Lauren Cohen	Secretary	June 2019
Kera Abraham Panni	Trustee	June 2019
John Bailey, J.D.	Trustee	June 2018
Allison Barientos, CPA	Trustee	June 2018
Kevin Brookhouser	Trustee	June 2020
Ronnie Higgs, Ph.D.	Trustee	June 2020
Roberta Infelise, Ed.D.	Trustee	June 2019
Valerie Josephson, M.D.	Trustee	June 2020
Kate Mitchell Mehle	Trustee	June 2020
Kelly Sorenson	Trustee	June 2018

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**ADMINISTRATION**

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Sean Madden  
*Director*

Jessica Allen  
*Principal*

Lisa Griffin Burns  
*Operations & HR Manager*

See accompanying note to supplementary information.

INTERNATIONAL SCHOOL OF MONTEREY  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2018

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Grade Span	Classroom Based	
	Second Period	
	Report	Annual Report
Kindergarten through third	162.07	161.76
Fourth through sixth	144.95	145.07
Seventh through eighth	94.04	93.25
<b>Total Average Daily Attendance - Classroom Based</b>	<b>401.06</b>	<b>400.08</b>

*The Charter had no Non-Classroom Based ADA in 2017-18*



**INTERNATIONAL SCHOOL OF MONTEREY  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2018**

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<b>Grade Span</b>	<b>Minutes Requirement</b>	<b>2017-18 Actual Minutes</b>	<b>Number of Days</b>	<b>Status</b>
Kindergarten	36,000	59,960	180	Complied
Grades 1 through 3	50,400	48,495	180	Not in Compliance*
Grades 4 through 8	54,000	62,040	180	Complied

\*Refer to Finding 2018-002

INTERNATIONAL SCHOOL OF MONTEREY  
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018

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*There were no adjustments made to reconcile fund balance reported on the Financial Report- Alternative Form to net assets per the audited financial statements for the year ended June 30, 2018.*

INTERNATIONAL SCHOOL OF MONTEREY  
NOTES TO THE SUPPLEMENTARY INFORMATION  
JUNE 30, 2018

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NOTE 1 – PURPOSE OF SCHEDULES

A. 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.

B. 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.

C. Schedule of Instructional Time

International School of Monterey receives, as part of their local control funding formula sources, incentive funding for maintaining instructional time. This schedule presents information on the amount of instructional time offered by the International School of Monterey and whether the Charter complied with the provisions of *Education Code Section 46200 through 46208*.

D. Reconciliation of Financial Report – Alternative Form 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.

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## **OTHER INDEPENDENT AUDITORS' REPORTS**

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**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**

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

Independent Auditor's Report

To the Board of Trustees of  
International School of Monterey  
Seaside, 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 International School of Monterey ("ISM") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated October 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Charter'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 Charter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter'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.

SAN DIEGO  
LOS ANGELES  
SAN FRANCISCO/BAY AREA

Corporate Office:  
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www.christywhite.com

*Licensed by the California  
State Board of Accountancy*

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California

October 26, 2018

## REPORT ON STATE COMPLIANCE

### Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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*State Board of Accountancy*

To the Board of Trustees of  
International School of Monterey  
Seaside, California

### **Report on State Compliance**

We have audited International School of Monterey's compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810, that could have a direct and material effect on each of International School of Monterey's state programs for the fiscal year ended June 30, 2018, as identified below.

### **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 International School of Monterey'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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, *California Code of Regulations*, section 19810. 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 occurred. An audit includes examining, on a test basis, evidence about International School of Monterey'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 International School of Monterey's compliance with those requirements.

## Opinion on State Compliance

In our opinion, International School of Monterey 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, 2018.

## 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 Finding 2018-001 and Finding 2018-002. Our opinion on state compliance is not modified with respect to these matters.

International School of Monterey'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. International School of Monterey's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## Procedures Performed

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

Description	Procedures Performed
<b>School Districts, County Offices of Education and Charter Schools</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No
After/Before 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
<b>Charter Schools</b>	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Not applicable

We did not perform procedures over California Clean Energy Jobs Act because there were no funds expended nor completed projects in 2017-18.



San Diego, California  
October 26, 2018



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## **FINDINGS AND QUESTIONED COSTS SECTION**

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**INTERNATIONAL SCHOOL OF MONTEREY**  
**SUMMARY OF AUDITORS' RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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***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***

*International School of Monterey did not expend \$750,000 in federal expenditures in fiscal year 2017-18; therefore, this area is not applicable.*

***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>

INTERNATIONAL SCHOOL OF MONTEREY  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2018

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FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

*There were no audit findings related to the financial statements during 2017-18.*

INTERNATIONAL SCHOOL OF MONTEREY  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

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FIVE DIGIT CODE

10000  
40000  
42000  
60000  
61000  
62000  
70000  
71000

AB 3627 FINDING TYPE

Attendance  
State Compliance  
Charter School Facilities Programs  
Miscellaneous  
Classroom Teacher Salaries  
Local Control Accountability Plan  
Instructional Materials  
Teacher Misassignments

**FINDING 2018-001: MODE OF INSTRUCTION (40000)**

**Criteria:** Pursuant to California Code of Regulations (CCR) Title 5 §11963, classroom-based instruction must meet four requirements, one of which states that the charter school's pupils are to be under the immediate supervision of an employee of the charter school who is authorized to provide instruction to pupils within the meaning of Education Code (Ed Code) Section 47605(l). Per Ed Code Section 47605(l), teachers in charter schools shall hold a Commission on Teacher Credentialing certificate, permit or other document equivalent to that which a teacher in other public schools would be required to hold. Auditors are required to verify compliance with such Ed Code in Section BB of the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. If not in full compliance of Section BB, the charter school could be eligible for apportionment if found in full compliance with Audit Section CC Nonclassroom-Based Instruction/Independent Study.

**Condition:** Based on review and testing of teacher certifications for classroom-based instructors, we found that one (1) employee in a teaching position for Grade 2 did not hold an active teaching credential from the period of October 26, 2017 to January 18, 2018. Additionally, requirements of nonclassroom-based instruction were not met by the pupils engaged in instructional activities from the class taught.

**Effect:** The charter school is not in compliance with State requirements for mode of instruction, which also effects instructional time requirements.

**Cause:** Management and employee oversight of teaching credential status and expiration date.

**Questioned Cost:** There is no questioned cost directly related to Mode of Instruction; however, refer to Finding 2018-002 for the questioned cost related to instructional time.

**Recommendation:** We recommend that all credentials be monitored by management and individual teaching staff to ensure that all members of the charter school's teaching staff hold valid teaching credentials if responsible for the immediate supervision of charter school pupils under classroom-based instruction.

**INTERNATIONAL SCHOOL OF MONTEREY  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**FINDING 2018-001: MODE OF INSTRUCTION (40000) (continued)**

**Corrective Action Plan:** The ISM Audit Committee agrees with the Auditor that the root cause of both Finding 2018-001 and Finding 2018-002 (“the Findings”) was shortcomings in “management and employee oversight of teaching credential status and expiration date.” In order to assure that this Corrective Action Plan will fully address all contributing factors and provide solutions that remain effective over the long term, Charter School management and the Committee conducted analysis of specific causes. They identified the following:

- The CalStateTEACH internship program reorganized to eliminate the program based at our regional California State University, Monterey Bay campus. In the process, the Employee involved was reassigned to the CalStateTEACH program at California State University, Los Angeles. At the same time, the requirements for CalStateTEACH were also revamped. This disrupted the employee’s program, impacting ability to complete the internship credential by the program deadline. Moreover, along with the retirement of the Employee’s program mentor, it led to the Employee not having continuous access to appropriate advising regarding completion of the program and the associated credential.
- The Charter School management team member assigned to oversee credentialing had broad duties across operations and human resources, allowing little specifically designated or dedicated time for credential support and monitoring.
- The Charter School management team member assigned to oversee credentialing was on sick leave for approximately two months at the end of 2017, and the Charter School did not have a backup person in place for credential monitoring. As a result, credential checks were not completed as expected.
- The County Office of Education had turnover in the Credentials Analyst position due to retirement, which also disrupted the Charter School’s credential management process as the consulting relationship was being reestablished.
- The Charter School had little familiarity with Short Term Staff Permits, and no experience managing the application process to ensure timely approval covering the full period of need. As a result, though it would have covered the entire school year including the timeframe in question (October 26, 2017 through January 18, 2018) if the Charter School had applied at the start of the year, the Charter School’s late Short Term Staff Permit application did not result in the permit being in effect until January 19, 2018.

Based on the analysis of specific causes, the Charter School has planned the following actions to address the causes and ensure effective monitoring and management of credentials going forward:

- The Director will separate Operations and Human Resources management functions, with assignment to two separate management employees: a fulltime Operations Manager and a part-time HR Manager. (Completed August 2018)
- The HR Manager will update the Charter School staff database to include a matrix of all employees and their credential type, status, and expiration date. (Completed September 2018)
- The HR Manager will ensure that all staff members in positions requiring a credential hold a current qualifying credential or have a qualified application in process with the Commission on Teacher Credentialing. (Completed September 2018)
- The HR Manager will conduct quarterly reviews of the staff database, rechecking to document that all required credentials and applications are up-to-date, appropriate to the holder’s assignment, and properly filed. As part of the review, the HR Manager will:
  - Contact employees about credentials that need to be renewed at least six months before the expiration dates to ensure the employees have adequate time to renew their credentials.
  - Notify the Director and Principal regarding any credentials that have not been renewed at least three months before their expiration date.

**INTERNATIONAL SCHOOL OF MONTEREY  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**FINDING 2018-001: MODE OF INSTRUCTION (40000) (continued)**

**Corrective Action Plan (continued):**

- The HR Manager will annually remind individual teaching staff members that they must hold valid teaching credentials if responsible for the immediate supervision of Charter School students under regular classroom-based core instruction, and that they must manage their own credentialing processes, with assistance from the HR Manager upon request.
- The HR Manager will establish an ongoing relationship and dialogue with the County Office of Education Credentials Analyst to ensure ready access to guidance on specific credentialing questions and needs.
- In consultation with the current County Office of Education Credentials Analyst, the HR Manager will study all credentialing options that may be applicable to the Charter School's future needs, to ensure that the Charter School and its employees are well prepared to identify and secure appropriate credentials in timely fashion as needed. (Beginning July 2018)
- The HR Manager will establish a point of contact at CalStateTEACH who can guide any further utilization of that program by the Charter School to qualify and manage intern credential candidates, ensuring that program requirements can be met by both the Charter School and any candidate in such a way that there is no risk of having an intern candidate managing a Charter School classroom who is or becomes unqualified. (Beginning November 2018)
- The Director will assign the Charter School Principal as the backup for credential management. (Completed September 2018)
- The Principal will occasionally observe and participate in the HR Manager activities noted above in order to be prepared to conduct those activities or help transition them to another employee should the need arise due to the HR Manager's absence. (Completed September 2018)

**INTERNATIONAL SCHOOL OF MONTEREY**  
**STATE AWARD FINDINGS AND QUESTIONED COSTS, continued**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**FINDING 2018-002: ANNUAL INSTRUCTIONAL MINUTES – CLASSROOM BASED (40000)**

**Criteria:** In accordance with Education Code 47512.5(a)(1), for each fiscal year, a charter school shall offer a minimum of 50,400 instructional minutes for pupils in grades 1 to 3. Pursuant to California Code of Regulations (CCR) Title 5 §11963, classroom-based instruction must meet four requirements, one of which states that the charter school's pupils are to be under the immediate supervision of an employee of the charter school who is authorized to provide instruction to pupils within the meaning of Education Code (Ed Code) Section 47605(l).

**Condition:** Based on review and testing of teacher certifications for classroom-based instructors, we found that one (1) employee in a teaching position did not hold an active teaching credential. As a result of a non-credentialed employee providing instruction in core class subjects, the instructional time offered for this portion of the school day cannot be included in instructional time as it did not meet the criteria for classroom-based instruction. Pupils in grade 2 were provided instruction from a non-credentialed employee for the period of October 26, 2017 to January 18, 2018 or 36 school days consisting of 27 regular and 9 minimum days.

**Effect:** The charter school is not in compliance with State requirements for grades 1-3. Instructional minutes have been reduced for grades 1 – 3 on the schedule of instructional time as follows:

<u>Instructional Minutes Offered</u>				<u>Disallowed Minutes</u>			<u>Minutes Short</u>		
<u>Span</u>	<u>Regular</u>	<u>Minimum</u>	<u>Total</u>	<u>Regular</u>	<u>Minimum</u>	<u>Total</u>	<u>Required</u>	<u>Offered</u>	<u>Short</u>
1-3	48,280	9,310	57,590	7,025	2,070	9,095	50,400	48,495	1,905

**Cause:** Management and employee oversight of teaching credential status and expiration date.

**Questioned Cost:** A total penalty of \$6,174 based on guidance from the California Department of Education (CDE) as calculated below:

1	Affected grade level(s)	1-3
2	Affected grade level ADA	21.28
3	Derived Value of ADA by Grade Span	\$7,675.65
<b>Instructional Minutes Penalty Calculation</b>		
4	Number of required minutes	50,400
5	Number of minutes short	1,905
6	Percentage of Minutes Not Offered	3.78%
7	Affected LCFF Apportionment by Grade Span	\$163,338
8	Instructional Time Penalty by Grade Span	\$6,174
9	Total Instructional Time Penalty	\$6,174

**Recommendation:** We recommend that all credentials be monitored by management and individual teaching staff to ensure that all members of the charter school's teaching staff hold valid teaching credentials if responsible for the immediate supervision of charter school pupils under classroom-based instruction.

**Corrective Action Plan:** Please see the Corrective Action Plan described under Finding 2018-001.

INTERNATIONAL SCHOOL OF MONTEREY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018

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*There were no audit findings during 2016-17.*