

METHOD SCHOOLS CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022

OPERATING:

**Method Schools - #1617
Method Schools, LA - #1697**



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**METHOD SCHOOLS CORPORATION
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YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Method Schools Corporation
Arcadia, California

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Method Schools Corporation (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Method Schools Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

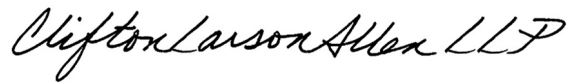
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The Method Schools, Method Schools, LA, and eliminations columns in the statements of financial position, activities and cash flows as well as the accompanying supplementary schedules as identified in the table of contents 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. The Local Education Agency Organization Structure, which is marked "unaudited", has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 13, 2022 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 on 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Glendora, California
December 13, 2022

METHOD SCHOOLS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

	Method Schools	Method Schools, LA	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 10,921,046	\$ 18,168,576	\$ -	\$ 29,089,622
Accounts Receivable	669,140	172,138	-	841,278
Accounts Receivable - Intercompany	-	3,262,667	(3,262,667)	-
Prepaid Expenses and Other Assets	44,126	13,070	-	57,196
Total Current Assets	11,634,312	21,616,451	(3,262,667)	29,988,096
LONG-TERM ASSETS				
Property, Plant, and Equipment, Net	101,929	-	-	101,929
Total Assets	<u>\$ 11,736,241</u>	<u>\$ 21,616,451</u>	<u>\$ (3,262,667)</u>	<u>\$ 30,090,025</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 370,780	\$ 5,646,420	\$ -	\$ 6,017,200
Accounts Payable - Intercompany	3,262,667	-	(3,262,667)	-
Deferred Rent Liability, Current	9,437	-	-	9,437
Total Current Liabilities	3,642,884	5,646,420	(3,262,667)	6,026,637
LONG-TERM LIABILITIES				
Deferred Revenue	346,646	674,217	-	1,020,863
Total Liabilities	3,989,530	6,320,637	(3,262,667)	7,047,500
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>7,746,711</u>	<u>15,295,814</u>	<u>-</u>	<u>23,042,525</u>
Total Liabilities and Net Assets	<u>\$ 11,736,241</u>	<u>\$ 21,616,451</u>	<u>\$ (3,262,667)</u>	<u>\$ 30,090,025</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022

	Method Schools	Method Schools, LA	Total
REVENUES, WITHOUT DONOR RESTRICTIONS			
State Revenue:			
State Aid	\$ 3,268,765	\$ 1,902,718	\$ 5,171,483
Other State Revenue	439,111	275,653	714,764
Federal Revenue:			
Grants and Entitlements	39,546	-	39,546
Local Revenue:			
In-Lieu Property Tax Revenue	83,929	106,848	190,777
Investment Income	88,794	137	88,931
Other Revenue	32,542	17,185	49,727
Total Revenues	<u>3,952,687</u>	<u>2,302,541</u>	<u>6,255,228</u>
EXPENSES			
Program Services	5,030,511	2,953,721	7,984,232
Management and General	1,137,368	669,717	1,807,085
Total Expenses	<u>6,167,879</u>	<u>3,623,438</u>	<u>9,791,317</u>
CHANGE IN NET ASSETS	(2,215,192)	(1,320,897)	(3,536,089)
Net Assets Without Donor Restrictions - Beginning of Year	<u>9,961,903</u>	<u>16,616,711</u>	<u>26,578,614</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	<u><u>\$ 7,746,711</u></u>	<u><u>\$ 15,295,814</u></u>	<u><u>\$ 23,042,525</u></u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Total Expenses
Salaries and Wages	\$ 5,112,242	\$ 922,278	\$ 6,034,520
Pension Expense	163,653	29,524	193,177
Other Employee Benefits	624,240	112,616	736,856
Payroll Taxes	374,198	67,508	441,706
Management Fees	-	105,962	105,962
Legal Expenses	-	3,705	3,705
Accounting Expenses	-	66,892	66,892
Other Fees for Services	171,694	2,979	174,673
Advertising and Promotion Expenses	7,691	110,057	117,748
Office Expenses	54,914	33,418	88,332
Instructional Materials	695,936	-	695,936
Information Technology Expenses	478,195	55,295	533,490
Occupancy Expenses	196,726	176,659	373,385
Travel Expenses	-	9,873	9,873
Depreciation Expense	-	38,115	38,115
Insurance Expense	-	63,345	63,345
Other Expenses	104,743	8,859	113,602
	<u>\$ 7,984,232</u>	<u>\$ 1,807,085</u>	<u>\$ 9,791,317</u>
Total Expenses by Function	<u>\$ 7,984,232</u>	<u>\$ 1,807,085</u>	<u>\$ 9,791,317</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

	Method Schools	Method Schools, LA	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	\$ (2,215,192)	\$ (1,320,897)	\$ -	\$ (3,536,089)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation	38,115	-	-	38,115
Change in Operating Assets and Liabilities:				
Accounts Receivable	1,481,836	4,709,396	-	6,191,232
Accounts Receivable- Intercompany		(1,042,665)	1,042,665	-
Prepaid Expenses and Other Assets	851	38,990	-	39,841
Accounts Payable and Accrued Liabilities	160,954	5,535,560	-	5,696,514
Accounts Payable- Intercompany	1,042,665	-	(1,042,665)	-
Deferred Rent Liability	(20,068)	-	-	(20,068)
Deferred Revenue	128,697	224,155	-	352,852
Net Cash Provided by Operating Activities	617,858	8,144,539	-	8,762,397
NET CHANGE IN CASH AND CASH EQUIVALENTS	617,858	8,144,539	-	8,762,397
Cash and Cash Equivalents - Beginning of Year	10,303,188	10,024,037	-	20,327,225
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 10,921,046</u>	<u>\$ 18,168,576</u>	<u>\$ -</u>	<u>\$ 29,089,622</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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 two California public schools: Method Schools and Methods Schools, LA. The School is economically dependent on state and federal funding.

Method Schools Corporation is authorized to operate as a charter school through the Dehesa School District in San Diego County. In July 2018, the board of directors of the Dehesa School District approved a charter petition for the Charter for a five-year term beginning July 1, 2019 and expiring on June 30, 2024. Method Schools, LA is 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, 2020 and expiring on June 30, 2025.

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.

Basis of Accounting

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

Basis of Presentation

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

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.

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. The expenses that are allocated include salaries and wages, pension expense, other employee benefits, other fees for service, advertising and promotion, and office expense, which are allocated on the basis of time and effort. Other expenses that are allocated are information technology, occupancy, and other expenses which are allocated on the basis of expense nature.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2022. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Compensated Absences

The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2022.

Net Asset Classes

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, if purchased, or at estimated fair value, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset. The School capitalizes all expenditures for land, buildings and equipment in excess of \$5,000.

Revenue Recognition

Amounts received from the California Department of Education are conditional and 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 net assets without donor restrictions, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restrictions.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. 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 value at the date of the promise. Conditional promises to give (those with a measurable performance or other barrier and a right of return) are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Conditional Grants

Grants and contracts that are conditioned upon the performance of certain requirements or the incurrence of allowable qualifying expenses (barriers) are recognized as revenues in the period in which the conditions are met. Amounts received are recognized as revenue when the School has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the statement of financial position. As of June 30, 2022, the School has conditional grants of \$1,489,499 of which \$1,020,863 is recognized as deferred revenue in the statement of financial position.

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.

Income Taxes

The School is a nonprofit 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 is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The School files an exempt school return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The School has evaluated subsequent events through December 13, 2022, the date these financial statements were available to be issued.

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure are those without donor or other restrictions limiting their use within one year of the statement of financial position date. Financial assets available for general expenditures comprise cash and cash equivalents and grants receivable for the total amount of \$29,930,900.

As part of its liquidity management plan, the School monitors liquidity required and cash flows to meet operating needs on a monthly basis. The School structures its financial assets to be available as general expenditures, liabilities and other obligations come due.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash in County Treasury

Method Schools Corporation (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 CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$38,115 for the year ended June 30, 2022. The components of property, plant, and equipment as of June 30, 2022 are as follows:

Leasehold Improvements	\$ 29,600
Equipment	190,572
Total	<u>220,172</u>
Less: Accumulated Depreciation	<u>(118,243)</u>
Property, Plant and Equipment, Net	<u><u>\$ 101,929</u></u>

NOTE 5 OPERATING LEASES

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 was then amended on July 13, 2017 to lengthen the lease term to December 31, 2022. In addition to monthly lease payments, the lease calls for common area maintenance (CAM) charges. The School paid a total of \$319,413 in lease payments and CAM fees during the fiscal year ended June 30, 2022. In March of 2022, the School entered into an Office Lease for their Headquarters. This lease ends in March 2025. In April of 2022, the School entered into a month-to-month Office Lease for workspace. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 160,741
2024	43,605
2025	<u>33,426</u>
Total	<u><u>\$ 237,772</u></u>

NOTE 6 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 3% of revenue from local control funding formula sources generated by each charter school. Total fees paid to the authorizing agencies for oversight amounted to \$40,170 for the fiscal year ended June 30, 2022.

The School 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 \$17,332, which, per the MOU, is calculated based on 1% of revenue from local control funding formula sources generated by each charter school.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 EMPLOYEE RETIREMENT

The School offers an Internal Revenue Code Section 403(b) retirement plan to each of its qualifying employees. The School matches up to 3% for classified employees. During the year ended June 30, 2022, the School contributed \$193,177 to this plan.

NOTE 8 CONTINGENCIES, RISKS AND UNCERTAINTIES

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.

METHOD SCHOOLS CORPORATION
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2022
(SEE INDEPENDENT AUDITORS' REPORT)
UNAUDITED

Method Schools Corporation 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, LA 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.

The board of directors and the administrators as of the year ended June 30, 2022 were as follows:

BOARD OF DIRECTORS

Member	Office	Term Expires (Five-Year Term)
Steve Dorsey	President	June 30, 2022
Shannon Clark	Vice President	June 30, 2022
Tyler Roberts	Treasurer	June 30, 2022
Gloria Vargas	Secretary	June 30, 2022
Carolyn Andrews	Board Member	June 30, 2022

ADMINISTRATORS

Jessica Spallino	Chief Executive Officer
Mark Holley	Chief Business Officer

METHOD SCHOOLS CORPORATION
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2022
(SEE INDEPENDENT AUDITORS' REPORT)

N/A – This School is nonclassroom based.

See accompanying Notes to Supplementary Information.

METHOD SCHOOLS CORPORATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2022
(SEE INDEPENDENT AUDITORS' REPORT)

	Second Period Report		Annual Report	
	Classroom	Total	Classroom	Total
Method Schools:				
Grades TK / K-3	-	31.61	-	31.94
Grades 4-6	-	55.16	-	56.59
Grades 7-8	-	76.53	-	78.15
Grades 9-12	-	169.97	-	177.77
ADA Totals	-	333.27	-	344.45
Method Schools, LA:				
Grades TK / K-3	-	25.69	-	23.88
Grades 4-6	-	29.04	-	29.17
Grades 7-8	-	33.87	-	32.33
Grades 9-12	-	109.77	-	120.37
ADA Totals	-	198.37	-	205.75
Grand Total	-	531.64	-	550.20

See accompanying Notes to Supplementary Information.

METHOD SCHOOLS CORPORATION
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Method Schools</u>	<u>Method Schools, LA</u>
June 30, 2022 Annual Financial Report Fund Balances (Net Assets)	\$ 7,726,644	\$ 15,295,814
Adjustments and Reclassifications:		
Accounts Payable and Accrued Liabilities	<u>20,067</u>	<u>-</u>
June 30, 2022 Audited Financial Statement Fund Balances (Net Assets)	<u><u>\$ 7,746,711</u></u>	<u><u>\$ 15,295,814</u></u>

See accompanying Notes to Supplementary Information.

**METHOD SCHOOLS CORPORATION
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022**

PURPOSE OF SCHEDULES

NOTE 1 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 California Education Code.

NOTE 2 SCHEDULE OF AVERAGE DAILY ATTENDANCE

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

NOTE 3 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.



**INDEPENDENT AUDITORS' 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 Corporation
Arcadia, California

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 Corporation (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 13, 2022.

Report on 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) as a basis for designing 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.

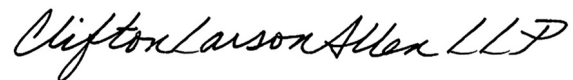
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Glendora, California
December 13, 2022



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Method Schools Corporation
Arcadia, California

Opinion on State Compliance

We have audited Method Schools Corporation's (the School) compliance with the types of compliance requirements described in the *2021-2022 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, 2022. The School's state compliance requirements are identified in the table below.

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, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Our responsibilities under those standards and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to below occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to below and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

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:	
California Clean Energy Jobs Act	Not Applicable
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
Immunizations	Not Applicable
Educator Effectiveness	Yes

<u>Description</u>	<u>Procedures Performed</u>
Expanded Learning Opportunities Grant (ELO-G)	Not Applicable
Career Technical Education Incentive Grant	Not Applicable
In Person Instruction Grant	Not Applicable
Charter Schools:	
Attendance	Yes
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/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

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 *2021-2022 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, California
December 13, 2022

**METHOD SCHOOLS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

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
43000	Apprenticeship
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

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2022**

There were no findings and questioned costs related to the basic financial statements or state awards for the prior year.



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Board of Directors
Method Schools Corporation
Arcadia, California

We have audited the financial statements of Method Schools Corporation as of and for the year ended June 30, 2022, and have issued our report thereon dated December 13, 2022. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards, and the 2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, published by the Education Appeals Panel*, as well as certain information related to the planned scope and timing of our audit in our planning communication dated July 11, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings or issues

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Method Schools Corporation are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2022.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no accounting estimates affecting the financial statements which were particularly sensitive or required substantial judgments by management.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Significant unusual transactions

We identified no significant unusual transactions.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated December 13, 2022.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Supplementary information in relation to the financial statements as a whole

With respect to the Local Education Agency Organization Structure, Schedule of Instructional Time, Schedule of Average Daily Attendance (ADA), and Reconciliation of Annual Financial Report with Audited Financial Statements (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 13, 2022.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document. You are responsible to provide us the opportunity to review such documents before issuance.

Upcoming accounting standards

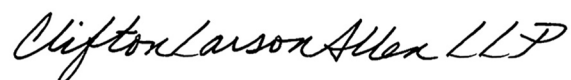
Our promise is to get to know you and help you. For your consideration, we provided recent accounting standards applicable to your entity.

Leases –

- Effective for fiscal years beginning after December 15, 2018 for public entities and December 15, 2021 for nonpublic entities. For your entity – June 30, 2023's financial statements.
- Requires lessees to recognize the assets and liabilities arising from all leases on the statement of financial position.
- A lessee should recognize the liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term.
- Continued differentiation between finance and operating leases.

* * *

This communication is intended solely for the information and use of the board of directors and management of Method Schools Corporation and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Glendora, California
December 13, 2022