

METHOD SCHOOLS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

OPERATING:

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



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**METHOD SCHOOLS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Method Schools
Arcadia, California

Report on the Financial Statements

We have audited the accompanying financial statements of Method Schools (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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.

Opinion

In our opinion, the financial statements referred to on page 1 present fairly, in all material respects, the financial position of the School as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2019 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.



CliftonLarsonAllen LLP

Glendora, California
December 6, 2019

**METHOD SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

	Method Schools	Method Schools, LA	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 3,574,110	\$ 2,027,794	\$ 5,601,904
Accounts Receivable	365,391	145,078	510,469
Prepaid Expenses and Other Assets	18,158	-	18,158
Total Current Assets	<u>3,957,659</u>	<u>2,172,872</u>	<u>6,130,531</u>
Total Assets	<u>\$ 3,957,659</u>	<u>\$ 2,172,872</u>	<u>\$ 6,130,531</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities	1,262,159	1,287,184	2,549,343
Deferred Rent Liability, Current	8,200	18,644	26,844
Total Current Liabilities	<u>1,270,359</u>	<u>1,305,828</u>	<u>2,576,187</u>
LONG-TERM LIABILITIES			
Deferred Rent Liability	21,305		21,305
Total Long-Term Liabilities	<u>21,305</u>	<u>-</u>	<u>21,305</u>
Total Liabilities	1,291,664	1,305,828	2,597,492
NET ASSETS WITHOUT DONOR RESTRICTION	<u>2,665,995</u>	<u>867,044</u>	<u>3,533,039</u>
Total Net Assets	<u>2,665,995</u>	<u>867,044</u>	<u>3,533,039</u>
Total Liabilities and Net Assets	<u>\$ 3,957,659</u>	<u>\$ 2,172,872</u>	<u>\$ 6,130,531</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Method Schools	Method Schools K-8	Method Schools, LA	Total
REVENUES, WITHOUT DONOR RESTRICTION				
State Revenue:				
State Aid	\$ 3,674,798	\$ -	\$ 3,562,712	\$ 7,237,510
Other state revenue	215,968	-	184,401	400,369
Federal Revenue:				
Grants and Entitlements	62,024	-	-	62,024
Local Revenue:				
In-Lieu Property Tax Revenue	38,033	-	91,699	129,732
Contributions	155	-	-	155
Investment Income	4,457	-	-	4,457
Other Revenue	386	-	(528)	(142)
Total Revenues	<u>3,995,821</u>	<u>-</u>	<u>3,838,284</u>	<u>7,834,105</u>
EXPENSES:				
Program Services	1,428,530	-	3,080,976	4,509,506
Management and General	519,201	-	520,123	1,039,324
Total Expenses	<u>1,947,731</u>	<u>-</u>	<u>3,601,099</u>	<u>5,548,830</u>
TRANSFER OF NET ASSETS	<u>-</u>	<u>136,009</u>	<u>(136,009)</u>	<u>-</u>
CHANGE IN NET ASSETS	2,048,090	136,009	101,176	2,285,275
Net Assets Without Donor Restriction, Beginning of Year	<u>617,905</u>	<u>(136,009)</u>	<u>765,868</u>	<u>1,247,764</u>
NET ASSETS WITHOUT DONOR RESTRICTION, END OF YEAR	<u><u>\$ 2,665,995</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 867,044</u></u>	<u><u>\$ 3,533,039</u></u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

	Method Schools	Method Schools K-8	Method Schools, LA	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Change in Net Assets	\$ 2,048,090	\$ 136,009	\$ 101,176	\$ 2,285,275
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Disposal of Property, Plant, and Equipment	7,400	-	-	7,400
Change in Operating Assets and Liabilities:				
Accounts Receivable	(255,281)	92,192	(120,523)	(283,612)
Prepaid Expenses and Other Assets	-	-	-	-
Accounts Payable and Accrued Liabilities	281,097	-	650,849	931,946
Cash Overdraft	-	(118,516)	-	(118,516)
Deferred Rent Liability	-	(9,685)	(13,780)	(23,465)
Net Cash Provided by Operating Activities	<u>2,081,306</u>	<u>100,000</u>	<u>617,722</u>	<u>2,799,028</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayments of Debt	(49,994)	(100,000)	(100,006)	(250,000)
Net Cash Flows Used in Financing Activities	<u>(49,994)</u>	<u>(100,000)</u>	<u>(100,006)</u>	<u>(250,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,031,312	-	517,716	2,549,028
Cash and Cash Equivalents, Beginning of Year	<u>1,542,798</u>	<u>-</u>	<u>1,510,078</u>	<u>3,052,876</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,574,110</u>	<u>\$ -</u>	<u>\$ 2,027,794</u>	<u>\$ 5,601,904</u>
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash Paid for Interest	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 249</u>	<u>\$ 263</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Salaries and Wages	\$ 2,209,088	\$ 311,947	\$ 2,521,035
Pension Expense	29,931	2,960	32,891
Other Employee Benefits	135,930	13,444	149,374
Payroll Taxes	171,267	16,939	188,206
Management Fees	-	53,865	53,865
Legal Expenses	-	16,443	16,443
Accounting Expenses	-	183,042	183,042
Other Fees for Services	146,481	18,282	164,763
Advertising and Promotion Expenses	19,385	57,242	76,627
Office Expenses	39,852	34,516	74,368
Instructional Materials	1,065,309	-	1,065,309
Information Technology Expenses	299,181	29,370	328,551
Occupancy Expenses	211,582	211,582	423,164
Travel Expenses	33,052	5,832	38,884
Conference and Meeting Expenses	457	456	913
Interest Expense	-	263	263
Depreciation Expense	-	7,400	7,400
Insurance Expense	-	19,410	19,410
Other Expenses	147,991	56,331	204,322
	<u>\$ 4,509,506</u>	<u>\$ 1,039,324</u>	<u>\$ 5,548,830</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 K - 8 was closed in 2018 and its assets transferred to Method Schools, LA.

Method Schools is authorized to operate as a charter school through the Dehesa School District in San Diego County. On August 21, 2014, the Board of Directors of the Dehesa School District approved a charter petition for the Charter for a five-year term beginning July 1, 2014 and expiring on June 30, 2019. Method Schools, 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, 2015 and expiring on June 30, 2020.

The mission of Method Schools Corporation is to provide innovative tools and educational practices to maximize personalization and empower students to become problem solvers, effective communicators, critical thinkers, and creative innovators.

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

The cost of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, which are split evenly between management and program based on usage. For salaries and wages, benefits, payroll taxes, some office expenses, information technology, interest, insurance, and other expenses, expenses are allocated on the basis of estimates of time and effort.

**METHOD SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

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 – We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed Assets and Services

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

Property, Plant and Equipment

The School has not yet adopted a policy to capitalize asset purchases; therefore \$5,000 as implemented by the Charter's authorizing agency will be used. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of assets. Property, plant and equipment were fully depreciated at June 30, 2019.

METHOD SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

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

Compensated Absences

The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2019.

Revenue Recognition

Amounts received from the California Department of Education are recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in 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.

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 are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes

The School is a 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 and 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events

The School has evaluated subsequent events through December 6, 2019, 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 \$6,112,373. As part of our liquidity management plan, we invest cash in excess of daily requirements in short term investments and money market funds.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash in County Treasury

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

Except for investments by trustees of debt proceeds, the authority to invest school funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website.

Cash in Banks

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

**METHOD SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 LONG-TERM LIABILITIES

Charter Revolving Loans

In June 2015, the School was approved to borrow \$200,000 through the Charter School Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The revolving note had an annualized interest rate equal to the "prime rate" of 0.30%. The loan was fully paid in March 2019.

NOTE 5 OPERATING LEASES

Murrieta Office

In April 2014, the School entered into a multi-tenant office lease to occupy space located in Murrieta, California. The facility is to be utilized by Method Schools for instructional services in order to meet the educational goals established by the charter school as well as School administrative offices. The agreement was then amended on July 13th, 2017 to lengthen the lease term to December 31st, 2022. In addition to monthly lease payments, the lease calls for common area maintenance (CAM) charges. The School paid a total of \$220,209 in lease payments and CAM fees during the fiscal year ended June 30, 2019.

Arcadia Office

In May 2015, the School entered into a lease agreement to occupy space located in Arcadia, California. The facility is utilized by the School as a learning resource center. The agreement allowed for the space to be occupied for instructional operations beginning on July 1, 2015. The lease is for a five-year term expiring on June 30, 2020. Base rent is set at \$12,183 per month for 2017-18 and increases at a rate of 3% per year. During the fiscal year ended June 30, 2019, the School paid a total of \$155,109 in lease payments attributed to this lease agreement.

Future minimum lease payments are as follows:

Year Ending June 30,	<u>Amount</u>
2020	\$ 386,440
2021	233,478
2022	240,483
2023	122,018
Total	<u>\$ 982,419</u>

METHOD SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 1% of revenue from local control funding formula sources generated by each charter school. Total fees paid to the authorizing agencies for oversight amounted to \$122,153 for the fiscal year ended June 30, 2019.

The School also has memorandum of understanding (MOU) agreements with the authorizing agencies for special education services. Fees paid to Dehesa School District for Method Schools special education oversight amounted \$3,379, which, per the MOU, is calculated based on 10% of federal and state special education funding.

NOTE 7 CONTINGENCIES

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

SUPPLEMENTARY INFORMATION

**METHOD SCHOOLS
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2019**

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

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

Method Schools, LA was established in 2015 (formerly known as Method Schools High School) 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, 2019 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires (5 year term)</u>
Steven Dorsey	President	June 30, 2019
Shannon Clark	Vice President	June 30, 2019
Tyler Roberts	Treasurer	June 30, 2019
Gloria Vargas	Secretary	June 30, 2019
Carolyn Andrews	Community Member	June 30, 2022

ADMINISTRATORS

Jessica Spallino	Chief Executive Officer
Mark Holley	Chief Business Officer

**METHOD SCHOOLS
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2019**

N/A – This School is nonclassroom based.

**METHOD SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2019**

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Method Schools:				
Grades TK / K-3	-	17.95	-	21.50
Grades 4-6	-	22.28	-	23.56
Grades 7-8	-	30.45	-	32.32
Grades 9-12	-	304.51	-	222.53
ADA Totals	-	375.19	-	299.91
Method Schools, LA:				
Grades TK / K-3	-	8.89	-	9.72
Grades 4-6	-	9.07	-	11.18
Grades 7-8	-	9.70	-	10.73
Grades 9-12	-	331.59	-	225.58
ADA Totals	-	359.25	-	257.21
Grand Total	-	734.44	-	557.12

See accompanying Auditors' Report and the Notes to Supplementary Information

**METHOD SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

	Method Schools	Method Schools, LA
June 30, 2019 Annual Financial Report Fund Balances (Net Assets)	\$ 2,651,109	\$ 873,531
Adjustments and Reclassifications:		
Increasing (Decreasing) the Fund Balance (Net Assets):		
Cash and cash equivalents	22,286	-
Accounts receivable - federal and state	-	(29,952)
Prepaid expenses and other assets	(7,400)	(329,867)
Accounts payable and accrued liabilities	-	353,332
Net Adjustments and Reclassifications	<u>14,886</u>	<u>(6,487)</u>
June 30, 2019 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 2,665,995</u>	<u>\$ 867,044</u>

See accompanying Auditors' Report and the Notes to Supplementary Information

**METHOD SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

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 the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

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
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 (the School), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 6, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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



CliftonLarsonAllen LLP

Glendora, California
December 6, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Method Schools
Arcadia, California

We have audited Method Schools' (the School) compliance with the types of compliance requirements described in the *2018-2019 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, 2019. The School's state compliance requirements are identified in the table below.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

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

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

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Not Applicable
Nonclassroom-based instructional/independent study	Yes
Determination of funding for nonclassroom-based instruction	Yes
Annual instructional minutes – classroom based	Not applicable
Charter School Facility Grant Program	Not applicable

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2019.

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 *2018-2019 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 6, 2019

**METHOD SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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 *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**METHOD SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

There were no findings in the prior year.

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