

METHOD SCHOOLS CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2020

OPERATING:

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



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**METHOD SCHOOLS CORPORATION
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YEAR ENDED JUNE 30, 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Method Schools Corporation
Arcadia, California

Report on the Financial Statements

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, 2020, 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.

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 School'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 School'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, 2020, 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2021 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
February 9, 2021

METHOD SCHOOLS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

ASSETS	<u>Method Schools</u>	<u>Method Schools, LA</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 7,519,236	\$ 7,919,236	\$ -	\$ 15,438,472
Accounts Receivable	1,200,135	894,439	-	2,094,574
Accounts Receivable - Intercompany	-	1,396,468	(1,396,468)	-
Prepaid Expenses and Other Assets	18,158	-	-	18,158
Total Current Assets	<u>8,737,529</u>	<u>10,210,143</u>	<u>(1,396,468)</u>	<u>17,551,204</u>
LONG-TERM ASSETS				
Property, Plant, and Equipment, Net	<u>118,578</u>	<u>-</u>	<u>-</u>	<u>118,578</u>
Total Assets	<u>\$ 8,856,107</u>	<u>\$ 10,210,143</u>	<u>\$ (1,396,468)</u>	<u>\$ 17,669,782</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 565,852	\$ 417,948	\$ -	\$ 983,800
Accounts Payable - Intercompany	1,396,468	-	(1,396,468)	-
Deferred Rent Liability, Current	1,562	-	-	1,562
Total Current Liabilities	<u>1,963,882</u>	<u>417,948</u>	<u>(1,396,468)</u>	<u>985,362</u>
LONG-TERM LIABILITIES				
Deferred Rent Liability	<u>27,943</u>	<u>-</u>	<u>-</u>	<u>27,943</u>
Total Liabilities	1,991,825	417,948	(1,396,468)	1,013,305
NET ASSETS				
Without Donor Restrictions	<u>6,864,282</u>	<u>9,792,195</u>	<u>-</u>	<u>16,656,477</u>
Total Net Assets	<u>6,864,282</u>	<u>9,792,195</u>	<u>-</u>	<u>16,656,477</u>
Total Liabilities and Net Assets	<u>\$ 8,856,107</u>	<u>\$ 10,210,143</u>	<u>\$ (1,396,468)</u>	<u>\$ 17,669,782</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

	Method Schools	Method Schools, LA	Total
REVENUES, WITHOUT DONOR RESTRICTIONS			
State Revenue:			
State Aid	\$ 5,995,639	\$ 12,848,424	\$ 18,844,063
Other State Revenue	506,399	544,090	1,050,489
Federal Revenue:			
Grants and Entitlements	234,395	-	234,395
Local Revenue:			
In-Lieu Property Tax Revenue	122,810	547,074	669,884
Investment Income	84,056	-	84,056
Other Revenue	3,907	-	3,907
Total Revenues	<u>6,947,206</u>	<u>13,939,588</u>	<u>20,886,794</u>
EXPENSES			
Program Services	2,180,970	3,918,563	6,099,533
Management and General	567,949	1,095,874	1,663,823
Total Expenses	<u>2,748,919</u>	<u>5,014,437</u>	<u>7,763,356</u>
CHANGE IN NET ASSETS	4,198,287	8,925,151	13,123,438
Net Assets Without Donor Restrictions - Beginning of Year	<u>2,665,995</u>	<u>867,044</u>	<u>3,533,039</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	<u>\$ 6,864,282</u>	<u>\$ 9,792,195</u>	<u>\$ 16,656,477</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Services	Management and General	Total Expenses
Salaries and Wages	\$ 3,370,823	\$ 440,923	\$ 3,811,746
Pension Expense	40,701	4,523	45,224
Other Employee Benefits	272,472	30,275	302,747
Payroll Taxes	253,591	28,177	281,768
Management Fees	-	64,500	64,500
Legal Expenses	-	21,404	21,404
Accounting Expenses	-	503,490	503,490
Other Fees for Services	112,418	11,351	123,769
Advertising and Promotion Expenses	46,301	136,434	182,735
Office Expenses	33,145	40,910	74,055
Instructional Materials	1,586,292	-	1,586,292
Information Technology Expenses	73,803	39,835	113,638
Occupancy Expenses	239,194	245,502	484,696
Travel Expenses	-	34,685	34,685
Conference and Meeting Expenses	-	1,272	1,272
Depreciation Expense	-	20,925	20,925
Insurance Expense	-	24,038	24,038
Other Expenses	70,793	15,579	86,372
Total Expenses by Function	<u>\$ 6,099,533</u>	<u>\$ 1,663,823</u>	<u>\$ 7,763,356</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2020

	Method Schools	Method Schools, LA	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	\$ 4,198,287	\$ 8,925,151	\$ -	\$ 13,123,438
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:				
Depreciation	20,925	-	-	20,925
Change in Operating Assets and Liabilities:				
Accounts Receivable	(834,744)	(749,361)	-	(1,584,105)
Accounts Receivable- Intercompany		(1,396,468)	1,396,468	-
Accounts Payable and Accrued Liabilities	(696,307)	(869,236)	-	(1,565,543)
Accounts Payable- Intercompany	1,396,468	-	(1,396,468)	-
Deferred Rent Liability	-	(18,644)	-	(18,644)
Net Cash Provided by Operating Activities	<u>4,084,629</u>	<u>5,891,442</u>	<u>-</u>	<u>9,976,071</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Property, Plant, and Equipment	(139,503)	-	-	(139,503)
Net Cash Used in Investing Activities	<u>(139,503)</u>	<u>-</u>	<u>-</u>	<u>(139,503)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,945,126	5,891,442	-	9,836,568
Cash and Cash Equivalents - Beginning of Year	<u>3,574,110</u>	<u>2,027,794</u>	<u>-</u>	<u>5,601,904</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 7,519,236</u></u>	<u><u>\$ 7,919,236</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,438,472</u></u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

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 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, 2020

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, 2020. 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, 2020.

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. 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. 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.

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, 2020

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. As of June 30, 2020, the School did not have any unearned revenue related to conditional grants.

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.

Change in Accounting Principle

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenues from Contracts with Customers (Topic 606). The update establishes the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The School has early adopted the implementation of ASU 2014-09 under the full retrospective approach. There was no material impact on the School's financial position and results of operations upon adoption of the new standard.

**METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (Continued)

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions), or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The School has implemented ASU 2018-08 under the modified prospective approach. There was no material impact on the School's financial position and results of operations upon adoption of the new standard.

Subsequent Events

The School has evaluated subsequent events through February 9, 2021, 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 \$17,533,046.

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.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

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.

NOTE 4 PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$20,925 for the year ended June 30, 2020.

The components of property, plant, and equipment as of June 30, 2020 are as follows:

Leasehold Improvements	\$	29,600
Equipment		139,503
		169,103
Less: Accumulated Depreciation		(50,525)
Property, Plant and Equipment, Net		\$ 118,578

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 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 \$305,502 in lease payments and CAM fees during the fiscal year ended June 30, 2020.

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. Base rent is set at \$12,183 per month for 2017-18 and increases at a rate of 3% per year. The lease expired on June 30, 2020 and was not renewed. During the fiscal year ended June 30, 2020, the School paid a total of \$159,762 in lease payments attributed to this lease agreement.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

NOTE 5 OPERATING LEASES (CONTINUED)

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	233,478
2022	240,483
2023	122,018
Total	<u>\$ 595,979</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 \$450,284 for the fiscal year ended June 30, 2020.

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 \$47,452, which, per the MOU, is calculated based on 1% of revenue from local control funding formula sources generated by each charter school.

NOTE 7 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.

During the fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the School, COVID-19 may impact various parts of its 2021 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the School is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing

**METHOD SCHOOLS CORPORATION
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2020**

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 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, 2020 were as follows:

BOARD OF DIRECTORS

Member	Office	Term Expires (5-Year Term)
Steve Dorsey	President	June 30, 2021
Shannon Clark	Vice President	June 30, 2021
Tyler Roberts	Treasurer	June 30, 2021
Gloria Vargas	Secretary	June 30, 2021
Carolyn Andrews	Board Member	June 30, 2021

ADMINISTRATORS

Jessica Spallino	Chief Executive Officer
Mark Holley	Chief Business Officer

METHOD SCHOOLS CORPORATION
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2020
(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, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	Second Period Report		Annual Report	
	Classroom	Total	Classroom	Total
Method Schools:				
Grades TK / K-3	-	4.91	-	4.91
Grades 4-6	-	23.57	-	23.57
Grades 7-8	-	51.20	-	51.20
Grades 9-12	-	509.07	-	509.07
ADA Totals	-	588.75	-	588.75
Method Schools, LA:				
Grades TK / K-3	-	7.11	-	7.11
Grades 4-6	-	35.76	-	35.76
Grades 7-8	-	158.06	-	158.06
Grades 9-12	-	1,089.40	-	1,089.40
ADA Totals	-	1,290.33	-	1,290.33
Grand Total	-	1,879.08	-	1,879.08

See accompanying Notes to Supplementary Information.

METHOD SCHOOLS CORPORATION
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Method Schools</u>	<u>Method Schools, LA</u>
June 30, 2020 Annual Financial Report Fund Balances (Net Assets)	\$ 6,823,282	\$ 9,490,012
Adjustments and Reclassifications:		
Accounts Receivable - Federal and State	41,000	151,546
Accounts Payable and Accrued Liabilities	-	150,637
Net Adjustments and Reclassifications	<u>41,000</u>	<u>302,183</u>
June 30, 2020 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 6,864,282</u>	<u>\$ 9,792,195</u>

See accompanying Notes to Supplementary Information.

**METHOD SCHOOLS CORPORATION
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2020**

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 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, 2020, 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 February 9, 2021.

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.

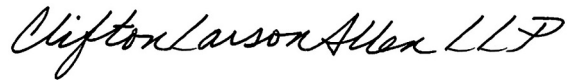
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



CliftonLarsonAllen LLP

Glendora, California
February 9, 2021



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Method Schools Corporation
Arcadia, California

We have audited Method Schools Corporation's (the School) compliance with the types of compliance requirements described in the *2019-2020 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, 2020. The School's state compliance requirements are identified in the table below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2019-2020 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

Compliance Requirements Tested (Continued)

<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, 2020.

Other Matters

The results of our auditing procedures disclosed and instance of noncompliance, which are required to be reported in accordance with the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* and are described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on each state program is not modified with respect to these matters.

The School's response to the noncompliance finding identified in our audit are described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

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 *2019-2020 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
February 9, 2021

**METHOD SCHOOLS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

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

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section IV – Findings and Questioned Costs – State Compliance

2020-01 Average Daily Attendance Reporting 10000

Related to School: Method Schools #1617 and Method Schools, LA #1697

Criteria: Pursuant to the provisions of Education Code Section 19850, the Second Principal (P2) and Annual reports of attendance submitted to the California Department of Education should be supported by written contemporaneous records that document all pupil attendance included in the charter school's Average Daily Attendance (ADA) calculations.

Condition: During our testing of independent study compliance requirements, we identified that the school did not maintain adequate records to support student engagement in educational activity on each day for which a pupil's attendance was being reported. We tested 101 days of reported attendance for Method Schools (#1617) and identified 20 days that did not have daily engagement logs. We tested 123 days of reported attendance for Method Schools, LA (#1697) and identified 18 days that did not have daily engagement logs.

Effect: The Schools are not in compliance with Ed Code Section 19850.

Cause: The student information system, SmartFox, did not record adequate support to substantiate a student's involvement in academic activity for days being reported as attended in the P2 ADA report.

**METHOD SCHOOLS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2020**

Questioned Costs and Units: Based on the sample tested, in the School over-reporting ADA by 0.18 and 0.17 for Method Schools (#1617) and Method Schools, LA (#1697), respectively. The error resulted in a net financial impact of \$1,813 and \$1,921 for Method Schools (#1617) and Method School, LA (#1697) respectively. The aggregated known errors for the days sampled was \$3,734 for the School. To determine the full impact on ADA a full file review for recorded attendance would need to be performed.

Repeat Finding: This is not a repeating finding.

Recommendation: We recommend that the School monitor and track student academic activity on a daily basis to provide sufficient records of attendance.

Corrective Action Plan: Management has implemented enhanced procedures to ensure daily attendance is tracked and regularly monitored in comparison to aggregate reported attendance. New actions include a revision of the Board-approved attendance policy in December 2020 and hiring a skilled independent study school registrar, also in December 2020. Additionally, management has implemented increased teacher training and development of new reports and workflow processes in the student information system that makes attendance tracking easier for teachers and staff.

**METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

There were no findings in the prior year.

