

**METHOD SCHOOLS CORPORATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2023**

**OPERATING:**

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



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Method Schools Corporation  
Murrieta, 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, 2023, 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, 2023, 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; and for 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.

In preparing the financial statements, management is required to evaluate whether 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 one year after the date the financial statements are available to be issued.

***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 October 20, 2023 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  
October 20, 2023

**METHOD SCHOOLS CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2023**

	Method Schools	Method Schools, LA	Eliminations	Total
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 12,470,416	\$ 17,114,697	\$ -	\$ 29,585,113
Accounts Receivable	153,600	239,073	-	392,673
Accounts Receivable - Intercompany	-	2,640,049	(2,640,049)	-
Prepaid Expenses and Other Assets	18,730	11,082	-	29,812
Total Current Assets	<u>12,642,746</u>	<u>20,004,901</u>	<u>(2,640,049)</u>	<u>30,007,598</u>
<b>NONCURRENT ASSETS</b>				
Operating Right-of-Use Asset	73,230			73,230
Property, Plant, and Equipment, Net	95,221	-	-	95,221
Total Long-Term Assets	<u>168,451</u>	<u>-</u>	<u>-</u>	<u>168,451</u>
Total Assets	<u>\$ 12,811,197</u>	<u>\$ 20,004,901</u>	<u>\$ (2,640,049)</u>	<u>\$ 30,176,049</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Liabilities	\$ 368,519	\$ 2,267,516	\$ -	\$ 2,636,035
Accounts Payable - Intercompany	2,640,049	-	(2,640,049)	-
Current Lease Liability - Operating	41,521	-	-	41,521
Total Current Liabilities	<u>3,050,089</u>	<u>2,267,516</u>	<u>(2,640,049)</u>	<u>2,677,556</u>
<b>LONG-TERM LIABILITIES</b>				
Long-Term Lease Liability - Operating	32,985	-	-	32,985
Deferred Revenue	1,020,232	1,679,925	-	2,700,157
Total Long-Term Liabilities	<u>1,053,217</u>	<u>1,679,925</u>	<u>-</u>	<u>2,733,142</u>
Total Liabilities	4,103,306	3,947,441	(2,640,049)	5,410,698
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<u>8,707,891</u>	<u>16,057,460</u>	<u>-</u>	<u>24,765,351</u>
Total Liabilities and Net Assets	<u>\$ 12,811,197</u>	<u>\$ 20,004,901</u>	<u>\$ (2,640,049)</u>	<u>\$ 30,176,049</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2023**

	<u>Method Schools</u>	<u>Method Schools, LA</u>	<u>Total</u>
<b>REVENUES, WITHOUT DONOR RESTRICTIONS</b>			
State Revenue:			
State Aid	\$ 5,127,324	\$ 5,352,180	\$ 10,479,504
Other State Revenue	305,655	446,751	752,406
Federal Revenue:			
Grants and Entitlements	48,593	194,726	243,319
Local Revenue:			
In-Lieu Property Tax Revenue	130,030	250,970	381,000
Investment Income	263,736	194	263,930
Other Revenue	53,294	16,594	69,888
Total Revenues	<u>5,928,632</u>	<u>6,261,415</u>	<u>12,190,047</u>
<b>EXPENSES</b>			
Program Services	4,433,409	4,946,545	9,379,954
Management and General	534,043	553,224	1,087,267
Total Expenses	<u>4,967,452</u>	<u>5,499,769</u>	<u>10,467,221</u>
<b>CHANGE IN NET ASSETS</b>	961,180	761,646	1,722,826
Net Assets Without Donor Restrictions - Beginning of Year	<u>7,746,711</u>	<u>15,295,814</u>	<u>23,042,525</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR</b>	<u>\$ 8,707,891</u>	<u>\$ 16,057,460</u>	<u>\$ 24,765,351</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS CORPORATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2023**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Expenses</u>
Salaries and Wages	\$ 6,600,588	\$ 217,140	\$ 6,817,728
Pension Expense	185,708	5,744	191,452
Other Employee Benefits	718,380	22,216	740,596
Payroll Taxes	459,487	14,211	473,698
Management Fees	-	92,608	92,608
Legal Expenses	-	33,833	33,833
Accounting Expenses	-	113,520	113,520
Other Fees for Services	228,406	10,494	238,900
Advertising and Promotion Expenses	23,144	124,165	147,309
Office Expenses	7,521	62,349	69,870
Instructional Materials	664,969	-	664,969
Information Technology Expenses	256,736	48,883	305,619
Occupancy Expenses	10,500	241,441	251,941
Travel Expenses	55,403	-	55,403
Depreciation Expense	-	44,395	44,395
Insurance Expense	-	50,633	50,633
Other Expenses	169,112	5,635	174,747
	<u>\$ 9,379,954</u>	<u>\$ 1,087,267</u>	<u>\$ 10,467,221</u>
Total Expenses by Function	<u>\$ 9,379,954</u>	<u>\$ 1,087,267</u>	<u>\$ 10,467,221</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

	Method Schools	Method Schools, LA	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Change in Net Assets	\$ 961,180	\$ 761,646	\$ -	\$ 1,722,826
Adjustments to Reconcile Change in Net Assets				
Net Cash Provided (Used) by Operating Activities:				
Depreciation	44,395	-	-	44,395
Change in Operating Assets and Liabilities:				
Accounts Receivable	515,540	(66,935)	-	448,605
Accounts Receivable- Intercompany		622,618	(622,618)	-
Prepaid Expenses and Other Assets	25,396	1,988	-	27,384
Operating ROU Asset	(73,230)			(73,230)
Accounts Payable and Accrued Liabilities	(2,261)	(3,378,904)	-	(3,381,165)
Accounts Payable- Intercompany	(622,618)	-	622,618	-
Lease Liability - Operating	74,506			74,506
Deferred Rent Liability	(9,437)	-	-	(9,437)
Deferred Revenue	673,586	1,005,708	-	1,679,294
Net Cash Provided by Operating Activities	<u>1,587,057</u>	<u>(1,053,879)</u>	<u>-</u>	<u>533,178</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of Property, Plant, and Equipment	<u>(37,687)</u>	<u>-</u>	<u>-</u>	<u>(37,687)</u>
Net Cash Used in Investing Activities	<u>(37,687)</u>	<u>-</u>	<u>-</u>	<u>(37,687)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,549,370	(1,053,879)	-	1,770,576
Cash and Cash Equivalents - Beginning of Year	<u>10,921,046</u>	<u>18,168,576</u>	<u>-</u>	<u>29,089,622</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 12,470,416</u>	<u>\$ 17,114,697</u>	<u>\$ -</u>	<u>\$ 30,860,198</u>

See accompanying Notes to Financial Statements.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**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. In July 2021, Governor Gavin Newsom signed into law a requirement to extend most charter school petitions terms by two years. The extension apply to all charter that would otherwise expire on or between January 1, 2022 and June 30, 2025. Therefore, Method Schools' and Method Schools, LA's charter term are extended to June 30, 2026 and 2027, respectively.

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.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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, 2023. 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, 2023.

**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.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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, 2023, the School has conditional grants of \$3,221,926 of which \$2,700,157 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.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Leases**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, *Leases* (ASC 842). The School determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, and operating lease liabilities on the statement of financial position. Finance leases are included in financing ROU assets, and lease liabilities – financing on the statement of financial position.

ROU assets represent the School's right to use an underlying asset for the lease term and lease liabilities represent the School's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term.

As most of leases do not provide an implicit rate, the School uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option. The School has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the statement of financial position.

**Adoption of New Accounting Standards**

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (ASC 842). The new standard increases transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent of the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The School adopted the requirements of the guidance effective July 1, 2022 and has elected to apply the provisions of this standard to the beginning of the period of adoption with certain practical expedients available.

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Adoption of New Accounting Standards (Continued)**

The School elected the available practical expedients to account for existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

In addition, the School elected the hindsight practical expedient to determine the lease term for existing leases. The election of the hindsight practical expedient resulted in the shortening of the lease term for the existing lease and the useful life of the corresponding leasehold improvements.

As a result of the adoption of the new lease accounting guidance, the School recognized on July 1, 2022 a ROU asset at the carrying amount of the operating lease asset of \$112,842. The School also recognized on July 1, 2022 a lease liability of \$112,842, which represents the present value of the remaining finance lease payments discounted using the School's incremental borrowing rate of 4%.

**Evaluation of Subsequent Events**

The School has evaluated subsequent events through October 20, 2023, 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 \$29,977,786.

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.

**METHOD SCHOOLS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023**

**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.

**NOTE 4 PROPERTY, PLANT, AND EQUIPMENT**

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$44,395 for the year ended June 30, 2023. The components of property, plant, and equipment as of June 30, 2023 are as follows:

Leasehold Improvements	\$ 29,600
Equipment	228,259
Total	<u>257,859</u>
Less: Accumulated Depreciation	<u>(162,638)</u>
Property, Plant and Equipment, Net	<u><u>\$ 95,221</u></u>

**METHOD SCHOOLS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 5 OPERATING LEASES – ASC 842**

The School leases equipment as well as certain operating and office facilities for various terms under long-term, non-cancelable lease agreements. 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. In the normal course of business, it is expected that these leases will be renewed or replaced by similar leases. Certain facility leases provide for increases in future minimum annual rental payments based on defined increases in the Consumer Price Index, subject to certain minimum increases. Additionally, the agreements generally require the School to pay real estate taxes, insurance, and repairs.

In July 2017, the School amended a multi-tenant office lease to occupy space located in Murrieta, California, which ended on December 31, 2022. In addition to monthly lease payments, the lease calls for common area maintenance (CAM) charges. The School paid a total of \$112,581 in lease payments and CAM fees during the fiscal year ended June 30, 2023.

In March of 2022, the School entered into an Office Lease for the School’s Headquarters. This lease ends in March 2025.

In April of 2022, the School entered into a month-to-month Office Lease for workspace with monthly payments of \$1,266.

The following table provides quantitative information concerning the Office Lease for the School’s Headquarters for the year ended June 30, 2023:

Lease Cost:	Amount
Operating Lease Cost	\$ 165,307
Month-to-Month Lease Cost	15,278
Total lease cost	\$ 180,585

Other Information:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 164,030
Right-of-use assets obtained in exchange for new operating lease liabilities:	
Weighted-average remaining lease term - operating leases	1.8 years
Weighted-average discount rate - operating leases	4.00%

**METHOD SCHOOLS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023**

**NOTE 5 OPERATING LEASES – ASC 842 (CONTINUED)**

The School classifies the total undiscounted lease payments that are due in the next 12 months as current. A maturity analysis of annual undiscounted cash flows for lease liabilities as of June 30, 2023, is as follows:

<u>Year Ending June 30.</u>	<u>Amount</u>
2024	\$ 43,605
2025	33,426
Total Lease Payments	<u>77,031</u>
Less: Interest	<u>2,525</u>
Present Value of Lease Liabilities	<u><u>\$ 74,506</u></u>

Subsequent to June 30, 2023, the School has entered into an additional operating leases, for facility rental.

**NOTE 6 COMMITMENTS**

Method Schools entered into a facility use agreement with Dehesa Elementary School District (DESD) in November, 2022. The agreement ends on August 31, 2023. Total facility use fees paid to DESD amounted to \$10,800 for the fiscal year ended June 30, 2023.

**NOTE 7 DISTRICT OVERSIGHT FEES**

The School makes payments to the authorizing agencies, Dehesa Elementary School District and Acton Agua Dulce Unified School District, for fees related to 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 \$87,165 for the fiscal year ended June 30, 2023.

**NOTE 8 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, 2023, the School contributed \$191,452 to this plan.

**NOTE 9 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**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2023**

**NOTE 10 SUBSEQUENT EVENTS**

In July 2023, the School entered into a multi-tenant office lease to occupy space located in Oceanside, 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 operating lease will commence as of July 1, 2023 with a lease term expiring in June 2026. The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 54,144
2025	55,768
2026	57,441
Future Minimum Lease Payments	<u>\$ 167,353</u>

In July 2023, Governor Gavin Newsom signed into law a requirement to extend most charter school petitions terms by an additional year. Therefore, Method Schools' and Method Schools, LA's charter term are extended to June 30, 2027 and 2028, respectively.

**METHOD SCHOOLS CORPORATION  
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
 YEAR ENDED JUNE 30, 2023  
 (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, 2023 were as follows:

**BOARD OF DIRECTORS**

<b>Member</b>	<b>Office</b>	<b>Term Expires (Three-Year Term)</b>
Carolyn Andrews	President	June 30, 2025
Tyler Roberts	Vice President	June 30, 2025
Shannon Clark	Secretary	June 30, 2025
Gloria Vargas	Board Member	June 30, 2025
Steven Dorsey	Board Member	June 30, 2025

**ADMINISTRATORS**

Jessica Spallino	Chief Executive Officer
Mark Holley	Chief Business Officer

**METHOD SCHOOLS CORPORATION  
SCHEDULE OF INSTRUCTIONAL TIME  
YEAR ENDED JUNE 30, 2023**

N/A – This School is nonclassroom based.

**METHOD SCHOOLS CORPORATION**  
**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**YEAR ENDED JUNE 30, 2023**

	Second Period Report		Annual Report	
	Classroom	Total	Classroom	Total
Method Schools:				
Grades TK / K-3	-	16.75	-	18.83
Grades 4-6	-	30.84	-	34.67
Grades 7-8	-	56.35	-	61.69
Grades 9-12	-	341.08	-	314.79
ADA Totals	-	445.02	-	429.98
Method Schools, LA:				
Grades TK / K-3	-	10.54	-	11.28
Grades 4-6	-	20.71	-	22.01
Grades 7-8	-	19.78	-	24.22
Grades 9-12	-	406.21	-	348.16
ADA Totals	-	457.24	-	405.67
Grand Total	-	902.26	-	835.65

See accompanying Independent Auditors' Report and the Notes to Supplementary Information.

**METHOD SCHOOLS CORPORATION  
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2023**

	Method Schools	Method Schools, LA
June 30, 2023 Annual Financial Report Fund Balances (Net Assets)	\$ 8,707,891	\$ 16,057,460
Adjustments and Reclassifications:		
Cash and Cash Equivalents	-	(64)
Accounts Receivable - Federal and State	568	616
Accounts Receivable - Intercompany	-	(586)
Prepaid Expenses and Other Assets	8,501	-
Operating Right-of-Use Asset	(9,069)	-
Accounts Payable and Accrued Liabilities	-	34
Net Adjustments and Reclassifications	-	-
June 30, 2023 Audited Financial Statement Fund Balances (Net Assets)	\$ 8,707,891	\$ 16,057,460

*See accompanying Independent Auditors' Report and the Notes to Supplementary Information.*

**METHOD SCHOOLS CORPORATION  
NOTES TO SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2023**

**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  
Murrieta, 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, 2023, 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 October 20, 2023.

**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 School's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



**CliftonLarsonAllen LLP**

Glendora, California  
October 20, 2023



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors  
Method Schools Corporation  
Murrieta, California

### **Report on Compliance**

#### **Opinion on State Compliance**

We have audited Method Schools Corporation's (the School) compliance with the types of compliance requirements applicable to the School described in the *2022-2023 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, 2023. The School's applicable State compliance requirements are identified in the table below.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that are applicable to the School for the year ended June 30, 2023.

#### **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 *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards and *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's state programs.

### **Auditors' Responsibility for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above 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 *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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 *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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 above 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 *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* 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 <sup>1</sup>
After/Before School Education and Safety Program	Not Applicable <sup>2</sup>
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 <sup>3</sup>
Immunizations	Not Applicable <sup>4</sup>
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant (CTEIG)	Not Applicable <sup>5</sup>
Transitional Kindergarten	Not Applicable <sup>6</sup>
Charter Schools:	
Attendance	Yes
Mode of Instruction	Not Applicable <sup>7</sup>
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Not Applicable <sup>7</sup>
Charter School Facility Grant Program	Not Applicable <sup>8</sup>

Not Applicable<sup>1</sup>: The School did not have any expenditures for California Clean Energy Jobs Act in the year under audit or a completed project between 12 and 15 months prior to any month in the audit year.

Not Applicable<sup>2</sup>: The School did not operate an after or before school program component of this grant.

Not Applicable<sup>3</sup>: The School did not report ADA pursuant to Education Code section 51749.5.

Not Applicable<sup>4</sup>: The School did not have any charter school subject to audit of immunizations as listed in the California Department of Public Health (CDPH) website as listed in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Not Applicable<sup>5</sup>: The School did not receive a CTEIG allocation for the audit year.

Not Applicable<sup>6</sup>: The School did not report ADA for the audit year for transitional kindergarten.

Not Applicable<sup>7</sup>: The School did not report any ADA as generated through classroom-based instruction.

Not Applicable<sup>8</sup>: The School did not receive Charter School Facility Grant Program funding for the year audited.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, California  
October 20, 2023

**METHOD SCHOOLS CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2023**

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 *2022-2023 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, 2023**

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



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