Method Schools Board of Directors POLICY

Board approved: 06/13/2024

3070 Lease Capitalization Policy

Purpose:

This Lease Accounting Policy outlines the principles and procedures that Method Schools follows for recognizing, measuring, presenting, and disclosing leases in accordance with Generally Accepted Accounting Principles (GAAP). The policy is designed to ensure consistency and compliance with the relevant accounting standards.

Scope:

This policy applies to leases entered into by Method Schools, with a term exceeding 12 months. And includes leases of property, plant, and equipment which exceed the determined capitalization threshold. The Entity considered its existing capitalization threshold for property, plant, and equipment of $5,000 and a reasonable recognition threshold for lease liabilities that takes into account the effect of individual lease liabilities and in the aggregate and determined in accordance with ASC 842 an individual lease capitalization threshold of $5,000/annual per identified lease.

Definitions:

- Lease: A contract, or part of a contract, that conveys the right to use an asset for a period in exchange for consideration.
- Lessee: The entity that obtains the right to use the leased asset.
- Lessor: The entity that provides the leased asset.
- Lease Term: The non-cancellable period for which the lessee has the right to use the leased asset, including any options to extend or terminate the lease if it is reasonably certain that the option will be exercised.

Recognition:

Lessees shall recognize a right-of-use asset and a lease liability at the commencement date of the lease. Lessors shall classify leases as either operating leases or finance leases and recognize income accordingly.

Measurement:

- Lease Liability: The present value of the lease payments, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate.
- Right-of-Use Asset: The initial measurement of the lease liability, plus any initial direct costs incurred by the lessee and any lease payments made at or before the commencement date, less any lease incentives received.
- Processes to Account for Leases: The Entity's elects to use a Microsoft Excel ® based

model to perform the necessary calculations to account for its leasing activity.
- Discount Rate: the Entity shall adopt a discount rate based on historic cost of capital during the Entity's organizational history, annual increases in lease payment terms, and the current market interest rate

Financial Presentation:

- Lessees shall present right-of-use assets within the same line item as owned assets of a similar nature. Lease liabilities shall be presented separately on the balance sheet.
- Lessors shall present lease receivables or leased assets within their respective asset categories on the balance sheet.

Financial Disclosure:

Lessees and lessors shall provide disclosures that enable users of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Effective Date:

- Method Schools shall apply the lease accounting policy for reporting periods beginning on or after July 1, 2023, with earlier application permitted.
- The transition approach and any practical expedients used shall be disclosed in the financial statements.

Policy Review and Amendments:

This policy shall be reviewed and amended as necessary to reflect changes in accounting standards or regulations.