

METHOD SCHOOLS CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2024

OPERATING:

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



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YEAR ENDED JUNE 30, 2024**

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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 **Error! No document variable supplied.** (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2024, 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, 2024, 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 September 26, 2024 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
September 26, 2024

METHOD SCHOOLS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

	<u>Method Schools</u>	<u>Method Schools, LA</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 20,817,633	\$ 13,091,545	\$ -	\$ 33,909,178
Certificates of Deposit	-	1,017,250	-	1,017,250
Accounts Receivable	187,908	137,321	-	325,229
Accounts Receivable - Intercompany	-	8,657,801	(8,657,801)	-
Prepaid Expenses and Other Assets	68,628	60,127	-	128,755
Total Current Assets	<u>21,074,169</u>	<u>22,964,044</u>	<u>(8,657,801)</u>	<u>35,380,412</u>
NONCURRENT ASSETS				
Operating Right-of-Use Asset	138,795	-	-	138,795
Property, Plant, and Equipment, Net	86,866	-	-	86,866
Total Long-Term Assets	<u>225,661</u>	<u>-</u>	<u>-</u>	<u>225,661</u>
Total Assets	<u>\$ 21,299,830</u>	<u>\$ 22,964,044</u>	<u>\$ (8,657,801)</u>	<u>\$ 35,606,073</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 894,120	\$ 2,532,265	\$ -	\$ 3,426,385
Accounts Payable - Intercompany	8,657,801	-	(8,657,801)	-
Current Lease Liability - Operating	85,363	-	-	85,363
Total Current Liabilities	<u>9,637,284</u>	<u>2,532,265</u>	<u>(8,657,801)</u>	<u>3,511,748</u>
LONG-TERM LIABILITIES				
Long-Term Lease Liability - Operating	56,032	-	-	56,032
Deferred Revenue	211,748	1,233,029	-	1,444,777
Total Long-Term Liabilities	<u>267,780</u>	<u>1,233,029</u>	<u>-</u>	<u>1,500,809</u>
Total Liabilities	9,905,064	3,765,294	(8,657,801)	5,012,557
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>11,394,766</u>	<u>19,198,750</u>	<u>-</u>	<u>30,593,516</u>
Total Liabilities and Net Assets	<u>\$ 21,299,830</u>	<u>\$ 22,964,044</u>	<u>\$ (8,657,801)</u>	<u>\$ 35,606,073</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2024

	<u>Method Schools</u>	<u>Method Schools, LA</u>	<u>Total</u>
REVENUES, WITHOUT DONOR RESTRICTIONS			
State Revenue:			
State Aid	\$ 6,881,937	\$ 7,465,346	\$ 14,347,283
Other State Revenue	1,513,035	1,117,613	2,630,648
Federal Revenue:			
Grants and Entitlements	239,468	198,034	437,502
Local Revenue:			
In-Lieu Property Tax Revenue	137,056	270,507	407,563
Investment Income	520,525	21,673	542,198
Unrealized Gains from Certificates of Deposit	-	17,250	17,250
Other Revenue	4,377	4,378	8,755
Total Revenues	<u>9,296,398</u>	<u>9,094,801</u>	<u>18,391,199</u>
EXPENSES			
Program Services	5,973,495	5,335,869	11,309,364
Management and General	636,028	617,642	1,253,670
Total Expenses	<u>6,609,523</u>	<u>5,953,511</u>	<u>12,563,034</u>
CHANGE IN NET ASSETS	2,686,875	3,141,290	5,828,165
Net Assets Without Donor Restrictions - Beginning of Year	<u>8,707,891</u>	<u>16,057,460</u>	<u>24,765,351</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	<u>\$ 11,394,766</u>	<u>\$ 19,198,750</u>	<u>\$ 30,593,516</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2024

	Program Services	Management and General	Total Expenses
Salaries and Wages	\$ 7,741,841	\$ 286,310	\$ 8,028,151
Pension Expense	208,974	8,708	217,682
Other Employee Benefits	930,740	(18,334)	912,406
Payroll Taxes	488,968	77,488	566,456
Management Fees	-	107,682	107,682
Legal Expenses	-	17,288	17,288
Accounting Expenses	-	181,728	181,728
Other Fees for Services	392,527	-	392,527
Advertising and Promotion Expenses	2,022	191,596	193,618
Office Expenses	11,620	53,036	64,656
Instructional Materials	1,118,238	-	1,118,238
Information Technology Expenses	246,912	83,020	329,932
Occupancy Expenses	-	147,524	147,524
Travel Expenses	31,928	-	31,928
Depreciation Expense	-	45,652	45,652
Insurance Expense	-	69,574	69,574
Other Expenses	135,594	2,398	137,992
	<u>\$ 11,309,364</u>	<u>\$ 1,253,670</u>	<u>\$ 12,563,034</u>
Total Expenses by Function			

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

	Method Schools	Method Schools, LA	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Change in Net Assets	\$ 2,686,875	\$ 3,141,290	\$ -	\$ 5,828,165
Adjustments to Reconcile Change in Net Assets				
Net Cash Provided (Used) by Operating Activities:				
Depreciation	45,652	-	-	45,652
Unrealized Gains from Certificates of Deposit	-	(17,250)	-	(17,250)
Change in Operating Assets and Liabilities:				
Accounts Receivable	(34,308)	101,752	-	67,444
Accounts Receivable- Intercompany		(6,017,752)	6,017,752	-
Prepaid Expenses and Other Assets	(49,898)	(49,045)	-	(98,943)
Operating ROU Asset	(65,565)			(65,565)
Accounts Payable and Accrued Liabilities	525,601	264,749	-	790,350
Accounts Payable- Intercompany	6,017,752	-	(6,017,752)	-
Lease Liability - Operating	66,889			66,889
Deferred Rent Liability	-	-	-	-
Deferred Revenue	(808,484)	(446,896)	-	(1,255,380)
Net Cash Provided (Used) by Operating Activities	8,384,514	(3,023,152)	-	5,361,362
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of Certificates of Deposit	-	(1,000,000)	-	(1,000,000)
Purchases of Property, Plant, and Equipment	(37,297)	-	-	(37,297)
Net Cash Used in Investing Activities	(37,297)	(1,000,000)	-	(1,037,297)
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,347,217	(4,023,152)	-	4,324,065
Cash and Cash Equivalents - Beginning of Year	12,470,416	17,114,697	-	29,585,113
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 20,817,633</u>	<u>\$ 13,091,545</u>	<u>\$ -</u>	<u>\$ 33,909,178</u>

See accompanying Notes to Financial Statements.

METHOD SCHOOLS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2024

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. 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.

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.

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.

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

Certificates of deposit are recorded at fair value. Both unrealized gains and losses from the fluctuation of fair value and realized gains and losses from the sale of certificates of deposits are reflected in the statement of activities.

Accounts Receivable

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2024. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

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.

Compensated Absences

The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2024.

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
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2024, the School has conditional grants of \$1,511,669 of which \$1,444,777 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 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
STATEMENT OF CASH FLOWS
JUNE 30, 2024

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.

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.

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Evaluation of Subsequent Events

The School has evaluated subsequent events through September 26, 2024, 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, certificates of deposit and accounts receivable for the total amount of \$35,251,657.

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

NOTE 3 CASH AND CASH EQUIVALENTS

Cash in County Treasury

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

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

Cash in Banks

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

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 4 CERTIFICATES OF DEPOSIT AND FAIR VALUE MEASUREMENTS

Certificates of deposit are stated at fair value and are measured on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in unrestricted revenues support unless the income or loss is restricted by donor or law.

GAAP establishes a fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in an active market for identical assets. The School had no Level 1 investments at June 30, 2024.

Level 2 – Quoted prices for similar assets and market-corroborated inputs.

Level 3 – The Foundation’s own assumptions about market participation, including unobservable assumptions about risk, developed based on the best information available in the circumstances. The School had no Level 3 investments at June 30, 2024.

Investments held at June 30, 2024 consist of Level 2 in accordance to the fair value measurement. Investments and investment earnings at June 30, 2024 consist of the following:

	Level 2 Total
Certificates of Deposit	\$ 1,017,250
Unrealized Gains from Certificates of Deposit	\$ 17,250

NOTE 5 PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$45,652 for the year ended June 30, 2024. The components of property, plant, and equipment as of June 30, 2024 are as follows:

Leasehold Improvements	\$ 29,600
Equipment	265,556
Total	295,156
Less: Accumulated Depreciation	(208,290)
Property, Plant and Equipment, Net	\$ 86,866

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 6 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.

The School has entered into various office lease agreements greater than one year. The latest lease term ends June 2026 and the School recognizes the right-of-use asset and lease liabilities on the Statement of Financial Position.

In April 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 various office leases for the year ended June 30, 2024:

Lease Cost:	<u>Amount</u>
Operating Lease Cost	\$ 99,073
Month-to-Month Lease Cost	18,094
Total lease cost	<u>\$ 117,167</u>

Other Information:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 97,749
Right-of-use assets obtained in exchange for new operating lease liabilities:	\$ 157,332
Weighted-average remaining lease term - operating leases	1.7 years
Weighted-average discount rate - operating leases	4.00%

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, 2024, is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2025	\$ 89,194
2026	57,258
Total Lease Payments	146,452
Less: Interest	(5,057)
Present Value of Lease Liabilities	<u>\$ 141,395</u>

METHOD SCHOOLS CORPORATION
STATEMENT OF CASH FLOWS
JUNE 30, 2024

NOTE 7 FACILITIES USE AGREEMENT COMMITMENTS

Method Schools entered into facilities use agreement with Dehesa Elementary School District (DESD), in which the agreement ends on August 31, 2023. Total facilities use fees paid to DESD amounted to \$10,800 for the fiscal year ended June 30, 2024.

NOTE 8 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 \$125,622 for the fiscal year ended June 30, 2024.

NOTE 9 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 5% for classified employees. During the year ended June 30, 2024, the School contributed \$217,682 to this plan.

NOTE 10 CONTINGENCIES, RISKS AND UNCERTAINTIES

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

**METHOD SCHOOLS CORPORATION
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 YEAR ENDED JUNE 30, 2024
 (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, 2024 were as follows:

BOARD OF DIRECTORS

Member	Office	Term Expires (Three-Year Term)
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
Stefanie Bryant	Chief Financial Officer
Jade Fernandez	Chief Academic Officer

**METHOD SCHOOLS CORPORATION
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2024**

N/A – This School is nonclassroom based.

METHOD SCHOOLS CORPORATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2024

Method Schools:	Second Period Report		Audit Adjustments		Second Period Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Grades TK / K-3	-	11.61	-	-	-	11.61
Grades 4-6	-	36.08	-	-	-	36.08
Grades 7-8	-	58.81	-	-	-	58.81
Grades 9-12	-	433.04	-	(0.01)	-	433.03
ADA Totals	-	539.54	-	(0.01)	-	539.53

Method Schools:	Annual Report		Audit Adjustments		Annual Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Grades TK / K-3	-	12.67	-	-	-	12.67
Grades 4-6	-	40.15	-	-	-	40.15
Grades 7-8	-	67.61	-	-	-	67.61
Grades 9-12	-	393.96	-	(0.01)	-	393.95
ADA Totals	-	514.39	-	(0.01)	-	514.38

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

METHOD SCHOOLS CORPORATION
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2024

	Second Period Report		Audit Adjustments		Second Period Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Method Schools, LA:						
Grades TK / K-3	-	13.47	-	-	-	13.47
Grades 4-6	-	16.26	-	-	-	16.26
Grades 7-8	-	28.56	-	-	-	28.56
Grades 9-12	-	509.01	-	(0.04)	-	508.97
ADA Totals	-	567.30	-	(0.04)	-	567.26
	Annual Report		Audit Adjustments		Annual Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Method Schools, LA:						
Grades TK / K-3	-	15.01	-	-	-	15.01
Grades 4-6	-	17.50	-	-	-	17.50
Grades 7-8	-	32.34	-	-	-	32.34
Grades 9-12	-	431.22	-	(0.03)	-	431.19
ADA Totals	-	496.07	-	(0.03)	-	496.04
Grand Total	Second Period Report (Audited)		Annual Report (Audited)			
	-	1,106.79	-	1,010.42		

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, 2024**

	Method Schools	Method Schools, LA
June 30, 2024 Annual Financial Report Fund Balances (Net Assets)	\$ 11,394,766	\$ 19,177,536
Adjustments and Reclassifications:		
Accounts Receivable - Federal and State	592	21,807
Accounts Receivable - Intercompany	-	(593)
Prepaid Expenses and Other Assets	8,501	-
Operating Right-of-Use Asset	(9,093)	-
Net Adjustments and Reclassifications	-	21,214
June 30, 2024 Audited Financial Statement Fund Balances (Net Assets)	\$ 11,394,766	\$ 19,198,750

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

**METHOD SCHOOLS CORPORATION
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2024**

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, 2024, 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 September 26, 2024.

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
September 26, 2024



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER 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 *2023-2024 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, 2024. 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, 2024.

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 *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards and *2023-2024 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 *2023-2024 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 *2023-2024 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 *2023-2024 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:	
Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	Not Applicable ¹
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 ²
Immunizations	Not Applicable ³
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant (CTEIG)	Not Applicable ⁴
Expanded Learning Opportunities Program	Not Applicable ⁵
Transitional Kindergarten	Not Applicable ⁶
Charter Schools:	
Attendance	Yes
Mode of Instruction	Not Applicable ⁷
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Not Applicable ⁷
Charter School Facility Grant Program	Not Applicable ⁸

Not Applicable¹: The School did not operate an after or before school program component of this grant.

Not Applicable²: The School did not report ADA pursuant to Education Code section 51749.5.

Not Applicable³: 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 *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

Not Applicable⁴: The School did not receive a CTEIG allocation for the audit year.

Not Applicable⁵: The School did not receive Expanded Learning Opportunities Program funds for the audit year.

Not Applicable⁶: The School did not report ADA for the audit year for transitional kindergarten.

Not Applicable⁷: The School did not report any ADA as generated through classroom-based instruction.

Not Applicable⁸: The School did not receive Charter School Facility Grant Program funding for the year audited.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* and which are described in the accompanying schedule of findings and questioned costs as item 2024-001. Our opinion on each state program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the noncompliance findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

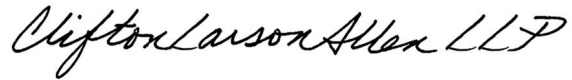
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-001, to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Schools' response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. the Schools' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Board of Directors
Method Schools Corporation

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 *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Glendora, California
September 26, 2024

**METHOD SCHOOLS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024**

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

FINANCIAL STATEMENTS:

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

STATE AWARDS AND COMPLIANCE:

2024-001 Nonclassroom based instruction / Independent Study 40000

Criteria: Per Education Code section 51747(g), a written independent study agreement must contain all the required elements including student/parent signature affixed prior to the commencement of independent study for a pupil that is scheduled to participate for more than 14 schooldays, or within 10 schooldays of the commencement of independent study for a student scheduled for less than 15 schooldays, on the agreement.

Condition: During nonclassroom-based/independent study pupil testing we found that two pupils in eleventh grade did not have all the required signatures on the master agreement before the first day that ADA was recorded, for students considered long-term independent study. For Method Schools, one pupil had instruction of one day prior to all the required signatures on the master agreement. For Method Schools, LA, one pupil had instruction of five days prior to all the required signatures on the master agreement before.

Effect: The School is not in compliance with Education Code section 51747(g) and overreported P2 ADA by 0.05 (Method Schools 0.01 ADA and Method Schools, LA 0.04 ADA).

Cause: The School failed to obtain all the signatures on master agreement before the first day that ADA was claimed for students enrolled in long-term independent study.

**METHOD SCHOOLS CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2024**

2024-001 Nonclassroom based instruction / Independent Study (Continued) 40000

Questioned costs: The lack of student signatures resulted in a reduction in ADA of 0.05, estimated at \$683 (Method Schools \$132 and Method Schools, LA \$551).

Repeat Finding: This is not a repeat finding.

Recommendation: It is recommended the School implement additional review procedures to ensure all signatures and elements are included on master agreements before any ADA is claimed.

Management's Corrective Action Plan (Unaudited): While the questioned costs are minimal, Method Schools concurs the final Independent Study Master Agreement (ISMA) signature date for the noted items does not agree with the first day of claimed ADA at P2 resulting in a minor overreported ADA at P2.

In response to the error, Method Schools has investigated the data and scripts used for reporting needs in the SmartFox system. Report scripts have been corrected to ensure the final signature date from the student's ISMA is used as the first ADA claimed date.

Additionally, Method will be conducting internal audits of the compliance data throughout the year, which will include verifying ADA start dates align with final ISMA signatures, as well as checking other Independent Study compliance items. The first internal audit will be conducted during the second week of September.

The attendance taking process for teachers will be strengthened by adding peer reviews of backup and attendance records to ensure independent study compliance is being met, ISMA signature dates are reviewed and that attendance records are updated timely.

Further, an audit trail report will be implemented. This will provide the means to verify who has made any changes to data after a learning period is final and locked, enabling better research into why a change may have occurred.

**METHOD SCHOOLS CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2024**

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



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