

DISCOVERY CHARTER PREPARATORY SCHOOL

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021

**OPERATING:
DISCOVERY CHARTER PREPARTORY #2: 0949**



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Discovery Charter Preparatory School
Sylmar, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Discovery Charter Preparatory School (the School), a California nonprofit public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the consolidated financial statements referred to on page one present fairly, in all material respects, the consolidated financial position of the School as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the School's consolidated financial statements as a whole. The Discovery Prep and DCPS Properties columns in the consolidated statements of financial position, activities, and cash flows as well as the accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 21, 2021 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 21, 2021

**DISCOVERY CHARTER PREPARATORY SCHOOL
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021**

	Discovery Prep	DCPS Properties	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,613,061	\$ 27,178	\$ -	\$ 1,640,239
Restricted Cash	-	298,657	-	298,657
Accounts Receivable	1,044,079	-	-	1,044,079
Prepaid Expenses and Other Assets	20,739	-	-	20,739
Total Current Assets	<u>2,677,879</u>	<u>325,835</u>	<u>-</u>	<u>3,003,714</u>
LONG-TERM ASSETS				
Deferred Rent Asset	-	230,306	(230,306)	-
Property, Plant, and Equipment, Net	505,328	6,432,748	-	6,938,076
Total Long-Term Assets	<u>505,328</u>	<u>6,663,054</u>	<u>(230,306)</u>	<u>6,938,076</u>
Total Assets	<u>\$ 3,183,207</u>	<u>\$ 6,988,889</u>	<u>\$ (230,306)</u>	<u>\$ 9,941,790</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 100,257	\$ -	\$ -	\$ 100,257
Amount Held for Others	17,970	-	-	17,970
Deferred Revenue	189,697	-	-	189,697
Bonds Payable - Short-Term Portion	-	65,000	-	65,000
Total Current Liabilities	<u>307,924</u>	<u>65,000</u>	<u>-</u>	<u>372,924</u>
LONG-TERM LIABILITIES				
Deferred Rent Liability	230,306	-	(230,306)	-
Bonds Payable - Long-Term Portion	-	5,904,644	-	5,904,644
Total Long-Term Liabilities	<u>230,306</u>	<u>5,904,644</u>	<u>(230,306)</u>	<u>5,904,644</u>
Total Liabilities	538,230	5,969,644	(230,306)	6,277,568
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,644,977</u>	<u>1,019,245</u>	<u>-</u>	<u>3,664,222</u>
Total Liabilities and Net Assets	<u>\$ 3,183,207</u>	<u>\$ 6,988,889</u>	<u>\$ (230,306)</u>	<u>\$ 9,941,790</u>

See accompanying Notes to Consolidated Financial Statements.

**DISCOVERY CHARTER PREPARATORY SCHOOL
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021**

	Discovery Prep	DCPS Properties	Eliminations	Total
REVENUES WITHOUT DONOR RESTRICTIONS				
State Revenue:				
State Aid	\$ 2,214,524	\$ -	\$ -	\$ 2,214,524
Other State Revenue	531,533	-	-	531,533
Federal Revenue:				
Grants and Entitlements	547,398	-	-	547,398
Local Revenue:				
In-Lieu Property Tax Revenue	649,395	-	-	649,395
Forgiveness of Notes Payable	388,100	276,426	-	664,526
Other Revenue	77	560,183	(560,130)	130
Total Revenues Without Donor Restrictions	4,331,027	836,609	(560,130)	4,607,506
EXPENSES				
Program Services	3,038,802	647,739	(487,313)	3,199,228
Management and General	395,083	-	(72,817)	322,266
Total Expenses	3,433,885	647,739	(560,130)	3,521,494
CHANGE IN NET ASSETS - OPERATIONS	897,142	188,870	-	1,086,012
TRANSFER TO LLC	(8,053)	8,053	-	-
CHANGE IN NET ASSETS	889,089	196,923	-	1,086,012
Net Assets Without Donor Restrictions - Beginning of Year	1,755,888	822,322	-	2,578,210
NET ASSETS WITHOUT DONOR RESTRICTIONS - END OF YEAR	<u>\$ 2,644,977</u>	<u>\$ 1,019,245</u>	<u>\$ -</u>	<u>\$ 3,664,222</u>

See accompanying Notes to Consolidated Financial Statements.

**DISCOVERY CHARTER PREPARATORY SCHOOL
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2021**

	<u>Program Services</u>	<u>Management and General</u>	<u>Eliminations</u>	<u>Total Expenses</u>
Salaries and Wages	\$ 1,509,505	\$ 175,773	\$ -	\$ 1,685,278
Pension Expense	-	-	-	-
Other Employee Benefits	212,683	23,631	-	236,314
Payroll Taxes	112,975	12,553	-	125,528
District Oversight Fees	27,792	-	-	27,792
Legal Expenses	-	6,221	-	6,221
Accounting Expenses	1,995	26,868	-	28,863
Instructional Materials	196,990	4,789	-	201,779
Other Fees for Services	226,163	9,162	-	235,325
Advertising and Promotion Expenses	-	13,213	-	13,213
Office Expenses	24,250	12,301	-	36,551
Information Technology Expenses	61,545	9,196	-	70,741
Occupancy Expenses	566,423	83,744	(560,130)	90,037
Travel Expenses	144	22	-	166
Conference and Meeting Expenses	506	-	-	506
Interest Expense	492,263	-	-	492,263
Depreciation Expense	197,960	11,094	-	209,054
Insurance Expense	-	3,321	-	3,321
Other Expenses	55,347	3,195	-	58,542
	<u>3,686,541</u>	<u>395,083</u>	<u>(560,130)</u>	<u>3,521,494</u>
Total				
Eliminations	<u>(487,313)</u>	<u>(72,817)</u>	<u>560,130</u>	<u>-</u>
Total Functional Expenses	<u>\$ 3,199,228</u>	<u>\$ 322,266</u>	<u>\$ -</u>	<u>\$ 3,521,494</u>

See accompanying Notes to Consolidated Financial Statements.

**DISCOVERY CHARTER PREPARATORY SCHOOL
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021**

	Discovery Prep	DCPS Properties	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in Net Assets	\$ 889,089	\$ 196,923	\$ 1,086,012
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:			
Depreciation	61,631	147,423	209,054
Forgiveness of Notes Payable	(388,100)	(276,426)	(664,526)
Amortization of Bond Costs and Discount	-	23,232	23,232
Change in Operating Assets and Liabilities:			
Accounts Receivable	(505,684)	-	(505,684)
Prepaid Expenses and Other Assets	(399)	-	(399)
Deferred Rent Asset	-	(28,367)	(28,367)
Accounts Payable and Accrued Liabilities	(157,630)	-	(157,630)
Amount Held for Others	(81)	-	(81)
Deferred Revenue	134,863	-	134,863
Deferred Rent Liability	28,367	-	28,367
Net Cash Provided by Operating Activities	<u>62,056</u>	<u>62,785</u>	<u>124,841</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of Property, Plant, and Equipment	(169,849)	-	(169,849)
Net Cash Provided (Used) by Investing Activities	<u>(169,849)</u>	<u>-</u>	<u>(169,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on Bonds Outstanding	-	(55,000)	(55,000)
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>(55,000)</u>	<u>(55,000)</u>
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(107,793)	7,785	(100,008)
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>1,720,854</u>	<u>318,050</u>	<u>2,038,904</u>
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - END OF YEAR	<u>\$ 1,613,061</u>	<u>\$ 325,835</u>	<u>\$ 1,938,896</u>
SUPPLEMENTAL DISCLOSURE - INTEREST PAID	<u>\$ -</u>	<u>492,263</u>	<u>\$ 492,263</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES			
Forgiveness of Notes Payable	<u>\$ 388,100</u>	<u>\$ 276,426</u>	<u>\$ 664,526</u>
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH REPORTED WITHIN THE STATEMENT OF FINANCIAL POSITION			
Cash and Cash Equivalents	\$ 1,613,061	\$ 27,178	\$ 1,640,239
Restricted Cash and Cash Equivalents	<u>-</u>	<u>298,657</u>	<u>298,657</u>
Total Cash, Cash Equivalents, and Restricted Cash Shown in the Statement of Cash Flows	<u>\$ 1,613,061</u>	<u>\$ 325,835</u>	<u>\$ 1,938,896</u>

See accompanying Notes to Consolidated Financial Statements.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The mission of Discovery Charter Preparatory School (the School) is to provide students with the necessary skills and support so that every student is prepared to attend college upon graduation from high school. The faculty, staff, and other stakeholders envision a safe and nurturing learning environment where instruction is rigorous and meaningful. Also, they are dedicated to closing the achievement gap for students by providing supportive, individualized attention and high expectations for academic success. The School is a California nonprofit public benefit corporation funded principally through state of California public education monies received through the California Department of Education.

The Los Angeles Unified School District (the District) has granted the charter through 2024. The charter may be revoked by the District for material violations of the charter, failure to meet student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Principles of Consolidation

The consolidated financial statements include the accounts of Discovery Charter Preparatory School and DCPS Properties (the LLC) because Discovery Charter Preparatory School has both control and an economic interest in the LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as Discovery Charter Preparatory School or the School.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Basis of Presentation

The accompanying consolidated 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 consolidated 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.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Asset Classes

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

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

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.

Restricted Cash

Restricted cash includes certain cash balances that are maintained according to bond reserve requirements.

Accounts Receivable

Accounts receivable primarily consist of funds due from federal and state governments as of June 30, 2021. 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 assets, ranging from 3 years to 40 years. The School capitalizes all expenditures for land, buildings, and equipment in excess of \$5,000. Depreciation expense was \$209,054 for the year ended June 30, 2021.

Compensated Absences

The School does not allow employees to carryover paid time off. Accordingly, there were no accumulated compensated absence benefits at June 30, 2021.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

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 restriction, 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 restriction.

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, 2021, the School has conditional grants of \$50,357 that have not been recognized as revenue in the statement of activities because conditions have not been met. As of June 30, 2021, the School has received conditional grants of \$189,697 that are recognized as deferred revenue in the statement of financial position because conditions have not yet been met.

In-Lieu Property Taxes Revenue

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.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Costs of providing the School's programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and support services benefited. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, office expenses, insurance, and other, which are allocated on the basis of estimates of time and effort.

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.

Subsequent Events

The School has evaluated subsequent events through October 21, 2021, the date these consolidated 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 as of June 30, 2021 are comprised of the following:

	Discovery Prep	DCPS Properties	Total
Cash	\$ 1,613,061	\$ 27,178	\$ 1,640,239
Accounts Receivable	1,044,079	-	1,044,079
Cash and Accounts Receivable for General Expenditures	\$ 2,657,140	\$ 27,178	\$ 2,684,318

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. Additionally, the School has a \$500,000 line of credit, which can be drawn upon, if needed.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 3 CONCENTRATION OF CREDIT RISK

The School maintains cash balances held in banks and revolving funds which are insured up to \$250,000 by the Federal Deposit 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 consolidated financial statements is presented net of accumulated depreciation. Depreciation expense was \$209,054 for the year ended June 30, 2021.

The components of property, plant, and equipment as of June 30, 2021 are as follows:

	Discovery Prep	DCPS Properties	Total
Land	\$ -	\$ 1,201,000	\$ 1,201,000
Building and Improvements	402,461	5,896,934	6,299,395
Equipment, Furniture, and Fixtures	401,715	-	401,715
Total	804,176	7,097,934	7,902,110
Less: Accumulated Amortization	(298,848)	(665,186)	(964,034)
Total Property, Plant, and Equipment	<u>\$ 505,328</u>	<u>\$ 6,432,748</u>	<u>\$ 6,938,076</u>

NOTE 5 EMPLOYEE RETIREMENT

The School offers an Internal Revenue Code Section 403(b) Thrift Plan to each of its qualifying employees. Employer and employee contributions are used to purchase annuity contracts for each participant. Employer contributions matched the 2% deducted from employee gross payroll until October 31, 2019. There were no employer contributions used to purchase annuity contracts for the year ended June 30, 2021.

NOTE 6 FEES

The District receives 1% of the School's annual ADA-related revenues for supervisory oversight and administrative services.

NOTE 7 LINE OF CREDIT

The School has an unsecured revolving line of credit with CitiBank for \$500,000 with an annual interest rate of 5.75%. There was no balance as of June 30, 2021.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 BONDS PAYABLE

In December 2016, DCPS Properties completed California Statewide Communities Development Authority School Facilities Revenue Bonds financing in the amount of \$6.80 million (the Series 2016 Bonds), proceeds from which were used to fund project expenses for DCPS Eldridge Avenue LLC property acquisition. Interest is paid semi-annually at coupon rates between 6.25% and 7.00%.

The Series 2016 Bonds are divided into \$6.1 million Series 2016A Bonds and \$750,000 Series 2016B Bonds (taxable), maturing between July 2028 and 2047 (Series 2016A) and July 2019 and 2027 (Series 2016B). Both Series 2016A and Series 2016B are subject to mandatory redemptions prior to their stated maturity by a Sinking Accounts Payment Fund.

The bonds were issued with a bond discount of \$165,639 and bond issuance costs of \$717,435. The bond discount and bond issuance cost will be amortized as interest expense over the life of the bonds. Future maturities for the bonds are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 65,000
2023	75,000
2024	80,000
2025	90,000
2026	100,000
Thereafter	<u>6,335,000</u>
Total	6,745,000
Less: Bond Discount	(145,241)
Less: Bond Costs	<u>(630,115)</u>
Total	<u><u>\$ 5,969,644</u></u>

NOTE 9 LONG-TERM DEBT

On June 2, 2020, the School received a loan from Citi Bank in the amount of \$388,100 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the “PPP Loan”). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration (SBA). Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the organization fails to apply for forgiveness within ten months after the covered period, then payment of principal and interest shall begin on that date.

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 LONG-TERM DEBT (CONTINUED)

In January 2021, the principal amount of \$388,100 was forgiven by the financial institution and U.S. Small Business Administration. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Company's financial position.

NOTE 10 RELATED PARTY LEASE AGREEMENT

In August 2016, the School entered into an operating lease agreement with DCPS Properties for educational facilities located in Sylmar, California. The lease expires in June 2047. Rental expense for the year ended June 30, 2021 was \$560,133. This lease is eliminated on the consolidated financial statements.

Minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 538,250
2023	538,563
2024	543,563
2025	547,938
2026	551,688
Thereafter	12,087,962
Total	<u>\$ 14,807,964</u>

NOTE 11 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.

In prior fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the School, COVID-19 may impact various parts of its 2022 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes the School is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

SUPPLEMENTARY INFORMATION

**DISCOVERY CHARTER PREPARATORY SCHOOL
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 YEAR ENDED JUNE 30, 2021
 (See Independent Auditor's Report)**

Discovery Charter Preparatory School is a California nonprofit public benefit corporation and operates a charter school approved by the Los Angeles Unified School District in 2002.

Discovery Charter Preparatory #2: 0949

The board of directors and the administrators as of the year ended June 30, 2021 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term End (Length)</u>
Julian Almaraz	President	June 2021
Jas Dhillon	Treasurer	June 2021
Nicole Albo-Lopez	Member	June 2021
Dr. Monte Perez	Member	June 2021
Yemi Robinson	Member	June 2021

ADMINISTRATORS

Dr. Karen Smith	Principal
Sheryl Schubert	Chief Financial Officer

DISCOVERY CHARTER PREPARATORY SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2021
(See Independent Auditor's Report)

	<u>Traditional Calendar Days</u>	<u>Status</u>
Grade 9	179	In compliance
Grade 10	179	In compliance
Grade 11	179	In compliance
Grade 12	179	In compliance

**DISCOVERY CHARTER PREPARATORY SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021
(See Independent Auditor's Report)**

June 30, 2021 Annual Financial Report Fund Balances (Net Assets)	\$ 2,560,753
Adjustments and Reclassifications:	
Increase (Decrease) of Fund Balance (Net Assets):	
Accounts Receivable	84,205
Accounts Payable and Accrued Liabilities	<u>19</u>
Net Adjustments and Reclassifications	<u>84,224</u>
June 30, 2021 Audited Financial Statement Fund Balances (Net Assets)	<u><u>\$ 2,644,977</u></u>

**DISCOVERY CHARTER PREPARATORY SCHOOL
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2021**

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 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 consolidated 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
Discovery Charter Preparatory School
Sylmar, 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 consolidated financial statements of Discovery Charter Preparatory School (the School), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated 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 21, 2021.

Internal Control Over Financial Reporting

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

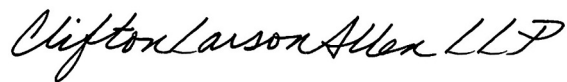
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School’s consolidated 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 consolidated 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
October 21, 2021



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Discovery Charter Preparatory School
Sylmar, California

We have audited Discovery Charter Preparatory School's (the School) compliance with the types of compliance requirements described in the *2020-2021 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, 2021. The School's state compliance requirements are identified in the table below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the School's compliance.

Compliance Requirements Tested

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies:	
Attendance and Distance Learning	Yes
Instructional Time	Yes

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Office of Education, and Charter Schools:	
California Clean Energy Jobs Act	No
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Charter Schools:	
Independent Study Course Based	Not Applicable
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instructional/Independent Study	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Charter School Facility Grant Program	Yes

Opinion on State Compliance

In our opinion, the School complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2021.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Glendora, California
 October 21, 2021

**DISCOVERY CHARTER PREPARATORY SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021
(See Independent Auditor's Report)**

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 Accountability 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 the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting or Government Auditing Standards*.

**DISCOVERY CHARTER PREPARATORY SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021
(See Independent Auditor's Report)**

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

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. CLA is an independent member of Nexia International, a leading, global network of independent accounting and consulting firms. See [nexia.com/member-firm-disclaimer](https://www.nexia.com/member-firm-disclaimer) for details. **CliftonLarsonAllen LLP**

