



Annual Financial Report
June 30, 2022

Discovery Charter Preparatory School
CHARTER Number 0949

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

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Rudolph F. Silva, CPA
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INDEPENDENT AUDITOR'S REPORT

Governing Board
Discovery Charter Preparatory School
(A California Nonprofit Public Benefit Corporation)
Sylmar, California

Report on the Financial Statements

Opinion

We have audited the financial statements of Discovery Charter Preparatory School (the Charter School) and DCPS Eldridge Avenue, LLC (the LLC), (California Nonprofit Public Benefit Corporations), collectively known as (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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 (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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 the 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 Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities 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 auditor's 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 Organization'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 Organization'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 financial statements as a whole. The accompanying supplementary information as listed on the table of contents is presented for purposes of additional analysis and are not a required part of the 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2022 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.



Brea, California
December 12, 2022

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022

	<u>Charter School</u>	<u>LLC</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 1,885,186	\$ -	\$ 1,885,186
Receivables	405,304	-	405,304
Prepaid expenses and other current assets	18,563	-	18,563
Total Current Assets	<u>2,309,053</u>	<u>-</u>	<u>2,309,053</u>
Non-Current Assets			
Deposits	500	-	500
Property and equipment	830,053	7,097,934	7,927,987
Less: accumulated depreciation	(400,085)	(861,750)	(1,261,835)
Total Non-Current Assets	<u>430,468</u>	<u>6,236,184</u>	<u>6,666,652</u>
Total Assets	<u>2,739,521</u>	<u>6,236,184</u>	<u>8,975,705</u>
LIABILITIES			
Current Liabilities			
Payables	415,638	-	415,638
Due to student groups	17,969	-	17,969
Deferred revenue	347,125	-	347,125
Unearned rent	230,306	-	230,306
Current portion of note payable	-	169,685	169,685
Total Current Liabilities	<u>1,011,038</u>	<u>169,685</u>	<u>1,180,723</u>
Long-Term Obligations or Liabilities			
Non-current portion of long-term obligations	-	6,409,444	6,409,444
Total Liabilities	<u>1,011,038</u>	<u>6,579,129</u>	<u>7,590,167</u>
NET ASSETS (DEFICIT)			
Net investment in capital assets	430,468	(342,945)	87,523
Without Donor Restriction	1,298,015	-	1,298,015
Total Net Assets	<u>1,728,483</u>	<u>(342,945)</u>	<u>1,385,538</u>
Total Liabilities and Net Assets	<u>\$ 2,739,521</u>	<u>\$ 6,236,184</u>	<u>\$ 8,975,705</u>

The accompanying notes are an integral part of these financial statements.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Charter School</u>	<u>LLC</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES				
Local Control Funding Formula	\$ 2,117,607	\$ -	\$ -	\$ 2,117,607
Federal revenue	277,074	-	-	277,074
Other State revenue	494,036	-	-	494,036
Local revenues	200,838	-	-	200,838
Lease Income	-	489,336	(489,336)	-
Interest Revenue	-	33	-	33
Total Revenue	<u>3,089,555</u>	<u>489,369</u>	<u>(489,336)</u>	<u>3,089,588</u>
EXPENSES				
Program services	2,959,626	-	(489,336)	2,470,290
Management and general	<u>1,045,863</u>	<u>1,851,559</u>	<u>-</u>	<u>2,897,422</u>
Total Expenses	<u>4,005,489</u>	<u>1,851,559</u>	<u>(489,336)</u>	<u>5,367,712</u>
CHANGE IN NET ASSETS	(915,934)	(1,362,190)	-	(2,278,124)
NET ASSETS, BEGINNING OF YEAR	<u>2,644,417</u>	<u>1,019,245</u>	<u>-</u>	<u>3,663,662</u>
NET ASSETS, END OF YEAR	<u>\$ 1,728,483</u>	<u>\$ (342,945)</u>	<u>\$ -</u>	<u>\$ 1,385,538</u>

The accompanying notes are an integral part of these financial statements.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Charter School</u>	<u>LLC</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (915,934)	\$ (1,362,190)	\$ (2,278,124)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities			
Depreciation and amortization expense	101,236	198,320	299,556
Changes in operating assets and liabilities			
Decrease in receivables	638,774	-	638,774
Decrease in prepaid expenditures	2,176	398,191	400,367
Decrease in deferred revenue	157,428	-	157,428
Increase in payables	314,321	-	314,321
Net Cash Provided by (Used in) Operating Activities	<u>298,001</u>	<u>(765,679)</u>	<u>(467,678)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	<u>(25,876)</u>	-	<u>(25,876)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(25,876)</u>	-	<u>(25,876)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan Proceeds	-	6,776,873	6,776,873
Loan principal payments	-	(6,011,194)	(6,011,194)
Net Cash Used in Financing Activities	<u>-</u>	<u>765,679</u>	<u>765,679</u>
NET CHANGE IN CASH	272,125	-	272,125
CASH, BEGINNING OF YEAR	<u>1,613,061</u>	-	<u>1,613,061</u>
CASH, END OF YEAR	<u>\$ 1,885,186</u>	<u>\$ -</u>	<u>\$ 1,885,186</u>
Supplemental cash flow disclosure:			
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 92,961</u>	<u>\$ 92,961</u>
Non-Cash Transaction			
On-behalf payments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Charter School		
	Program Services	Management and General	Subtotal
Personnel			
Salaries	\$ 1,134,473	\$ 532,984	\$ 1,667,457
Employee benefits	152,202	71,506	223,708
Payroll taxes	94,467	44,381	138,848
Total Personnel	<u>1,381,142</u>	<u>648,871</u>	<u>2,030,013</u>
Operating			
Educational programs	35,670	530	36,200
Occupancy	554,977	138,744	693,721
Student supplies	169,447	-	169,447
Office Supplies	11,076	-	11,076
Student nutrition	66,615	-	66,615
Special education fee	70,549	-	70,549
District supervisory fee	-	21,942	21,942
Depreciation and amortization	-	101,236	101,236
Non-capitalized equipment	11,693	-	11,693
Operating expenses	86,818	-	86,818
Fees for service	505,217	126,304	631,521
Advertising	33,480	-	33,480
Insurance	32,942	8,236	41,178
Interest expense	-	-	-
Total Operating	<u>1,578,484</u>	<u>396,992</u>	<u>1,975,476</u>
Total Functional Expenses	<u>\$ 2,959,626</u>	<u>\$ 1,045,863</u>	<u>\$ 4,005,489</u>

The accompanying notes are an integral part of these financial statements.

LLC			Total
Management and General	Eliminations		Expenses
\$ -	\$ -	\$	1,667,457
-	-		223,708
-	-		138,848
-	-		2,030,013
-	-		36,200
-	(489,336)		204,385
-	-		169,447
-	-		11,076
-	-		66,615
-	-		70,549
-	-		21,942
198,320	-		299,556
-	-		11,693
1,560,278	-		1,647,096
-	-		631,521
-	-		33,480
-	-		41,178
92,961	-		92,961
1,851,559	(489,336)		3,337,699
\$ 1,851,559	\$ (489,336)	\$	5,367,712

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – ORGANIZATION AND MISSION

The Discovery Charter Preparatory School, Inc. (the Charter School) is a non-profit public benefit corporation. The Organization petitioned through Los Angeles Unified School District for a charter and was approved by the State of California Department of Education in 2006. The charter has been renewed by the Los Angeles Unified School District for a period of five years ending June 30, 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.

Charter School number authorized by the State: 0949

The Charter School is located in Sylmar, California at 13570 Eldridge Avenue, opened on September 4, 2007, and currently serves approximately 200 students in grades nine through twelve. The Organization's mission 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 Charter School is a California nonprofit public benefit corporation funded principally through state of California public education monies received through the California Department of Education.

Other Related Entities

DCPS Eldridge Avenue, LLC and DCPS Properties

The Organization formed DCPS Properties and the DCPS Eldridge Avenue, LLC (the LLC) exclusively for charitable purpose solely related to property and assets of the Organization, for charitable purposes as specified in Section (c)(3) of the Internal Revenue Service. The Charter School makes lease payments to the LLC in accordance with the lease agreement. The LLC is the sole member of DCPS Properties.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

Principles of Combining

The combined financial statement includes the accounts of the Charter School, the LLC, and DCPS Properties because the Charter School has both control and an economic interest in DCPS Properties and the LLC. All significant accounts and transactions have been eliminated in combination.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor 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 restrictions. The board of directors has \$387,400 categorical programs designated net assets without donor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) 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 restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2022, are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Property and Equipment

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

DISCOVERY CHARTER PREPARATORY SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

The Organization reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2022.

Compensated Absences

The Charter School does not allow employees to carryover paid time off. Accordingly, there were no accumulated compensated absence benefits at June 30, 2022.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Organization receives federal and state grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal and state grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract and grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received, and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

Prepaid Expenses and Other Assets

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Organization has reported prepaid items either when purchased or during the benefiting period.

Deferred Revenue from 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 Charter 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, 2022, the Charter School has no conditional grants that have not been recognized as revenue in the statement of activities because conditions have not been met. As of June 30, 2022, the Charter School has not received conditional grants that are

DISCOVERY CHARTER PREPARATORY SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

recognized as deferred revenue in the statement of financial position because conditions have not yet been met.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the combined financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain. Accordingly, no accounting adjustment has been made to the combined financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases. The ASU is effective for the Organization for the year ended June 30, 2023. Management is evaluating the impact of the adoption of this standard.

DISCOVERY CHARTER PREPARATORY SCHOOL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Change in Accounting Principle

As of July 1, 2021, the Organization adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis, because it provides increased and more transparent disclosure around contributed nonfinancial assets.

NOTE 2 – CASH

Cash at June 30, 2022, consisted of the following:

	<u>Charter School</u>	
	<u>Reported</u>	<u>Bank</u>
	<u>Amount</u>	<u>Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 1,885,186</u>	<u>\$ 1,852,712</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2022, the Organization has a balance of \$1,602,712 in excess of FDIC insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

Cash and cash equivalents	\$ 1,885,186
Accounts receivable and other assets	<u>423,867</u>
Total	<u>\$ 2,309,053</u>

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 4 – RECEIVABLES

Receivables at June 30, 2022, consisted of the following:

Local control funding formula	\$ 281,451
Federal receivable	53,321
Other State receivable	39,650
Lottery	30,323
Other Local receivable	559
Total Receivables	<u>\$ 405,304</u>

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses at June 30, 2022, consisted of the following:

	<u>Charter School</u>
Insurance	\$ 14,063
E-Rate services	4,500
Total Prepaid Expenses and Other Assets	<u>\$ 18,563</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Fixed assets at June 30, 2022, consisted of the following:

	<u>Charter School</u>	<u>LLC</u>	<u>Total</u>
Land	\$ -	\$ 489,336	\$ 489,336
Leasehold improvements	428,338	-	428,338
Building/Building improvements	-	6,608,598	6,608,598
Equipment	362,664	-	362,664
Furniture	39,051	-	39,051
Less: accumulated depreciation	<u>(400,085)</u>	<u>(861,750)</u>	<u>(1,261,835)</u>
Total fixed assets, net of depreciation	<u>\$ 429,968</u>	<u>\$ 6,236,184</u>	<u>\$ 6,666,152</u>

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 7 – PAYABLES

Accounts payable at June 30, 2022, consisted of the following:

Salaries and benefits	\$ 96,161
Vendor payables	79,566
Due to grantor	<u>239,911</u>
Total Payables	<u>\$ 415,638</u>

NOTE 8 – LINE OF CREDIT

The Charter School has an unsecured revolving line of credit with Umpqua for \$500,000 with an annual interest rate of 5.75%. There was no balance as of June 30, 2022.

NOTE 9 – LONG-TERM OBLIGATIONS

Summary

The changes in the Organization's long-term obligations during the year consisted of the following:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Due in One Year
Bonds payable	\$ 5,969,644	\$ -	\$ 5,969,644	\$ -	\$ -
Loan payable	-	6,776,873	41,550	6,735,323	169,685
Total	<u>\$ 5,969,644</u>	<u>\$ 6,776,873</u>	<u>\$ 6,011,194</u>	<u>\$ 6,735,323</u>	<u>\$ 169,685</u>

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%. As of June 30, 2022, the bonds have been refinanced and paid in full.

Loan Payable

In March 2022, the LLC entered into a loan agreement with Umpqua Bank in the amount of \$6,776,873. The purpose of the note was to refinance the land loan and other asset acquisitions. The note is secured by a first trust deed on real property located at 13570 Eldridge Avenue, Sylmar, California. The note bears interest at 3.51% and calls for 179 monthly payments of \$33,615 of principal and interest, and one balloon payment of \$3,538,413 in March 2037.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Future payments are as follows:

Repayment Year	Principal	Interest	Total
2023	\$ 169,685	\$ 233,699	\$ 403,384
2024	175,738	227,646	403,384
2025	182,006	221,378	403,384
2026	188,498	214,886	403,384
2027	195,222	208,162	403,384
Thereafter	<u>5,824,223</u>	<u>1,623,918</u>	<u>7,448,142</u>
Subtotal	6,735,373	<u>\$ 2,729,689</u>	<u>\$ 9,465,061</u>
Less Cost of Issuance	<u>(156,244)</u>		
Total	<u>\$ 6,579,129</u>		

NOTE 10 – RELATED PARTY LEASE AGREEMENT

In August 2016, the Charter School entered into an operating lease agreement with the LLC for educational facilities located in Sylmar, California. The Charter School makes monthly lease payment to the LLC. The lease expires in June 2047. Rental expense for the year ended June 30, 2022, was \$489,336. This lease is eliminated on the combining financial statements.

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

The Charter 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, 2022.

NOTE 12 – RISK MANAGEMENT

Workers' Compensation

For fiscal year 2021-2022, the Organization participated with the Alliance of Schools for Cooperative Insurance Programs (ASCIP) for risk management services for workers' compensation insurance. The relationship between the Organization and ASCIP is such that ASCIP is not considered a component unit of the Organization for financial reporting purposes.

During the year ended June 30, 2022, the Organization made payments of \$12,474 to ASCIP for services received. At June 30, 2022, the Organization had no recorded accounts receivable or accounts payable to ASCIP.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Fees

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

Grants

The Organization 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 reimbursement, if required, would not be material.

Litigation

The Organization is not currently a party to any legal proceedings.

NOTE 14 – SUBSEQUENT EVENTS

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the combined financial statements through December 12, 2022, which is the date the combined financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2022

ORGANIZATION

The Discovery Charter Preparatory School was granted in 2006 by the Los Angeles Unified School District. The Discovery Charter Preparatory School operates one school, grades nine through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Julian Almaraz	President	June 30, 2023
¹ Jas Dillon	Treasurer	June 30, 2023
² Estella Miranda	Treasurer	June 30, 2023
Nicole Albo-Lopez	Member	June 30, 2023
³ Dr. Monty Perez	Member	June 30, 2023
⁴ Alicia Santana	Member	June 30, 2023
Yemi Robinson	Member	June 30, 2023

ADMINISTRATION

Dr. Karen Smith	Principal
Lucero Perez	Human Resources/Operations Manager

¹ Resigned October 2021

² As of November 2021

³ Resigned April 2022

⁴ As of May 2022

See accompanying note to supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2022

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Ninth through twelfth	171.17	171.72
Total Regular ADA	171.17	171.72
Classroom based ADA		
Ninth through twelfth	151.92	151.90
Total Classroom Based ADA	151.92	151.90

The Charter School operated a short-term independent study program.

See accompanying note to supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2022

Grade Level	1986-87 Minutes Requirement	2021-2022 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		65,595	179	N/A	Complied
Grade 10		65,595	179	N/A	Complied
Grade 11		65,595	179	N/A	Complied
Grade 12		65,595	179	N/A	Complied

See accompanying note to supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022**

Summarized below are the net assets balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Balance, June 30, 2022, Unaudited Actuals	\$ 1,506,729
Decrease in:	
Receivables	(52,562)
Payables	<u>274,316</u>
Balance, June 30, 2022, Audited Financial Statement	<u>\$ 1,728,483</u>

See accompanying note to supplementary information.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Charter School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of Education Code Sections 47612 and 47612.5, if applicable.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORTS

Rudolph F. Silva, CPA
Lisa D. Silva, CPA

**INDEPENDENT AUDITOR'S 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***

Governing Board
Discovery Charter Preparatory School
(A California Nonprofit Public Benefit Corporation)
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 combined financial statements of Discovery Charter Preparatory School (the Charter School) and DCPS Properties LLC (the LLC), collectively known as (the Organization) which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 12, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Organization'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 opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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 Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Silva + Silva CPAs".

Brea, California
December 12, 2022

Rudolph F. Silva, CPA
Lisa D. Silva, CPA

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE,
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED by the
2021-2022 *Guide for Annual Audits of K-12 Local Education Agencies and
State Compliance Reporting***

Governing Board
Discovery Charter Preparatory School
(A California Nonprofit Public Benefit Corporation)
San Bernardino, California

Report on State Compliance

Unmodified Opinion

We have audited Discovery Charter Preparatory School's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the state laws and regulations listed in the table below for the year ended June 30, 2022.

In our opinion, the Organization complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2022.

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 (*Government Auditing Standards*); and the audit requirements of the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards and the *2021-2022 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 Organization 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 on state compliance with the compliance requirements subject to audit in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our audit does not provide a legal determination of the Organization'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 Organization's compliance with the requirements listed in the table below.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements listed below has occurred, whether due to fraud or error, and express an opinion on the Organization'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 the *2021-2022 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 Organization's compliance with the requirements listed in the table below.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 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 Organization'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 Organization'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 the *2021-2022 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 Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below

	<u>Procedures Performed</u>
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
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	No, see below
Immunizations	No, see below
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No, see below
In Person Instruction Grant	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for "Local Education Agencies Other Than Charter Schools" are not applicable to charter schools; therefore, we did not perform any related procedures.

We did not perform California Clean Energy Jobs Act procedures because the Organization did not receive funding for this program.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization did not offer the program.

The Organization does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The Organization's charter school was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

We did not perform Career Technical Education Incentive Grant procedures because the Organization did not receive funding for this grant.

We did not perform In Person Instruction Grant procedures because the Organization did not receive funding for this grant.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Determination of Funding for Nonclassroom-Based Program.

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.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program 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 material noncompliance with a type of compliance requirement of a state program 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 with compliance requirements as identified in the table below that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The purpose of this report on internal control over state compliance is solely to describe the scope of our testing of internal control over state compliance and the results of that testing based on the requirements of the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Brea, California
December 12, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2022

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Internal control over state programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Any audit findings disclosed that are required to be reported in accordance with the <i>2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting</i> ?	<u>None reported</u>
Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

None reported

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

STATE COMPLIANCE FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

None reported.

DISCOVERY CHARTER PREPARATORY SCHOOL
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.