

**SCHOLARSHIP PREP CHARTER SCHOOL  
CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2021**

**CHARTER SCHOOLS:**

**SCHOLARSHIP PREP CHARTER (SANTA ANA)  
CHARTER NUMBER - 1808**

**SCHOLARSHIP PREP CHARTER SCHOOL – OCEANSIDE  
(OCEANSIDE)  
CHARTER NUMBER - 1883**

**SCHOLARSHIP PREP CHARTER - LOMITA-HARBOR CITY  
(SOUTH BAY)  
CHARTER NUMBER - 2042**



**WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Scholarship Prep Charter School  
Santa Ana, California

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Scholarship Prep Charter 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 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 auditor's 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 1 present fairly, in all material respects, the 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The Santa Ana, Oceanside, South Bay, and Elimination columns in the statements of financial position, activities, and cash flows as well as the accompanying supplementary schedules as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic consolidated 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 January 26, 2022 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness on the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Glendora, California  
January 26, 2022

**SCHOLARSHIP PREP CHARTER SCHOOL  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2021**

<b>ASSETS</b>	Santa Ana	Oceanside	South Bay	Facility Holdings LLC	Eliminations	Total
<b>CURRENT ASSETS</b>						
Cash and Cash Equivalents	\$ 835,479	\$ 1,275,351	\$ 972,600	\$ -	\$ -	\$ 3,083,430
Accounts Receivable - Federal and State	2,610,053	1,645,096	1,016,251	-	-	5,271,400
Prepaid Expenses and Other Assets	223,331	127,798	286,189	-	(13,043)	624,275
Notes Receivable - Intercompany	500,000	-	-	-	(500,000)	-
Total Current Assets	<u>4,168,863</u>	<u>3,048,245</u>	<u>2,275,040</u>	<u>-</u>	<u>(513,043)</u>	<u>8,979,105</u>
<b>LONG-TERM ASSETS</b>						
Restricted Cash and Cash Equivalents	-	-	-	12,916,053	-	12,916,053
Property, Plant, and Equipment, Net	237,554	361,706	248,418	4,511,251	-	5,358,929
Total Long-Term Assets	<u>237,554</u>	<u>361,706</u>	<u>248,418</u>	<u>17,427,304</u>	<u>-</u>	<u>18,274,982</u>
Total Assets	<u>\$ 4,406,417</u>	<u>\$ 3,409,951</u>	<u>\$ 2,523,458</u>	<u>\$ 17,427,304</u>	<u>\$ (513,043)</u>	<u>\$ 27,254,087</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts Payable and Accrued Liabilities	\$ 261,130	\$ 276,800	\$ 346,598	\$ 100,774	\$ (13,043)	\$ 972,259
Deferred Revenue	388,933	278,369	158,261	-	-	825,563
Factored Receivables Liability	-	-	513,771	-	-	513,771
Line of Credit Liability	106,671	98,300	54,536	-	-	259,507
Notes Payable, Intercompany	-	-	500,000	-	(500,000)	-
Notes Payable, Current Portion	50,000	83,334	62,502	-	-	195,836
Total Current Liabilities	<u>806,734</u>	<u>736,803</u>	<u>1,635,668</u>	<u>100,774</u>	<u>(513,043)</u>	<u>2,766,936</u>
<b>LONG-TERM LIABILITIES</b>						
Notes Payable	-	-	124,996	-	-	124,996
Bonds Payable	-	-	-	17,542,906	-	17,542,906
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>124,996</u>	<u>17,542,906</u>	<u>-</u>	<u>17,667,902</u>
Total Liabilities	<u>806,734</u>	<u>736,803</u>	<u>1,760,664</u>	<u>17,643,680</u>	<u>(513,043)</u>	<u>20,434,838</u>
<b>NET ASSETS</b>						
Without Donor Restrictions	3,580,245	2,658,647	754,561	(216,376)	-	6,777,077
With Donor Restrictions	19,438	14,501	8,233	-	-	42,172
Total Net Assets	<u>3,599,683</u>	<u>2,673,148</u>	<u>762,794</u>	<u>(216,376)</u>	<u>-</u>	<u>6,819,249</u>
Total Liabilities and Net Assets	<u>\$ 4,406,417</u>	<u>\$ 3,409,951</u>	<u>\$ 2,523,458</u>	<u>\$ 17,427,304</u>	<u>\$ (513,043)</u>	<u>\$ 27,254,087</u>

See accompanying Notes to Consolidated Financial Statements.

**SCHOLARSHIP PREP CHARTER SCHOOL  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

	Santa Ana	Oceanside	South Bay	Facility Holdings LLC	Total
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>					
<b>REVENUES</b>					
State Revenue:					
State Aid	\$ 5,217,660	\$ 2,585,746	\$ 1,760,354	\$ -	\$ 9,563,760
Other State Revenue	909,436	661,867	540,621	-	2,111,924
Federal Revenue:					
Grants and Entitlements	1,477,602	1,429,784	943,785	-	3,851,171
Local Revenue:					
In-Lieu Property Tax Revenue	38,487	1,674,051	714,501	-	2,427,039
Contributions	204	1,989	1,492	-	3,685
Interest Income	3,055	8,126	-	1,447	12,628
Other Revenue	34,209	28,769	15,988	-	78,966
Loan Forgiveness	217,722	760,600	222,278	-	1,200,600
Reallocation of PPP Loan	153,907	(195,856)	41,949	-	-
Net Assets Released From Restrictions	5,875	2,833	4,886	-	13,594
Total Revenues	<u>8,058,157</u>	<u>6,957,909</u>	<u>4,245,854</u>	<u>1,447</u>	<u>19,263,367</u>
<b>EXPENSES</b>					
Program Services	4,798,408	3,703,541	2,363,169	-	10,865,118
Management and General	1,490,094	1,164,531	880,029	217,823	3,752,477
Fundraising	255	213	124	-	592
Total Expenses	<u>6,288,757</u>	<u>4,868,285</u>	<u>3,243,322</u>	<u>217,823</u>	<u>14,618,187</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	1,769,400	2,089,624	1,002,532	(216,376)	4,645,180
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>					
<b>REVENUES</b>					
State Revenue:					
Contributions	18,600	15,000	11,400	-	45,000
Net Assets Released From Restrictions	(5,875)	(2,833)	(4,886)	-	(13,594)
Total Revenues, With Donor Restrictions	<u>12,725</u>	<u>12,167</u>	<u>6,514</u>	<u>-</u>	<u>31,406</u>
<b>CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<u>12,725</u>	<u>12,167</u>	<u>6,514</u>	<u>-</u>	<u>31,406</u>
<b>TOTAL CHANGE IN NET ASSETS</b>	1,782,125	2,101,791	1,009,046	(216,376)	4,676,586
Net Assets - Beginning of Year	1,817,558	571,357	(246,252)	-	2,142,663
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,599,683</u>	<u>\$ 2,673,148</u>	<u>\$ 762,794</u>	<u>\$ (216,376)</u>	<u>\$ 6,819,249</u>

See accompanying Notes to Consolidated financial statements.

**SCHOLARSHIP PREP CHARTER SCHOOL  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2021**

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and Wages	\$ 5,633,043	\$ 1,712,809	\$ -	\$ 7,345,852
Pension Expense	920,642	243,966	-	1,164,608
Other Employee Benefits	618,994	162,922	-	781,916
Payroll Taxes	166,697	50,739	-	217,436
Management Fees	-	287,843	-	287,843
Legal Expenses	-	57,305	-	57,305
Accounting Expenses	-	32,005	-	32,005
Instructional Materials	476,894	-	-	476,894
Other Fees for Services	593,978	172,984	-	766,962
Advertising and Promotion Expenses	-	21,331	-	21,331
Office Expenses	511,933	214,233	-	726,166
Information Technology Expenses	83,858	25,529	-	109,387
Occupancy Expenses	1,223,129	385,963	-	1,609,092
Travel Expenses	-	8,517	-	8,517
Interest Expense	-	271,362	-	271,362
Depreciation Expense	158,512	48,866	-	207,378
Insurance Expense	62,816	19,122	-	81,938
Other Expenses	414,622	36,981	592	452,195
	<u>\$ 10,865,118</u>	<u>\$ 3,752,477</u>	<u>\$ 592</u>	<u>\$ 14,618,187</u>
Total Expenses by Function				

See accompanying Notes to Consolidated financial statements.

**SCHOLARSHIP PREP CHARTER SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

	Santa Ana	Oceanside	South Bay	Facility Holdings LLC	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Change in Net Assets	\$ 1,782,125	\$ 2,101,791	\$ 1,009,046	\$ (216,376)	\$ -	\$ 4,676,586
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:						
Depreciation	74,163	69,431	63,784	-	-	207,378
Bond Cost of Issuance Amortization	-	-	-	38,701	-	38,701
Loan Forgiveness	(217,722)	(760,600)	(222,278)	-	-	(1,200,600)
Change in Operating Assets:						
Accounts Receivable - Federal and State	(1,882,997)	(678,396)	(664,667)	-	-	(3,226,060)
Prepaid Expenses and Other Assets	(27,222)	(11,803)	(180,989)	-	13,043	(206,971)
Change in Operating Liabilities:						
Accounts Payable and Accrued Liabilities	(35,937)	79,506	173,715	100,774	(13,043)	305,015
Deferred Revenue	294,459	227,505	122,043	-	-	644,007
Net Cash Provided (Used) by Operating Activities	(13,131)	1,027,434	300,654	(76,901)	-	1,238,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of Property, Plant, and Equipment	-	(34,497)	(34,505)	(4,511,251)	-	(4,580,253)
Net Cash Used by Investing Activities	-	(34,497)	(34,505)	(4,511,251)	-	(4,580,253)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
Proceeds from LOC	5,160	4,320	2,520	-	-	12,000
Repayments of LOC	(108,489)	(91,020)	(52,984)	-	-	(252,493)
Proceeds from Factored Receivables	-	-	513,771	-	-	513,771
Repayments of Notes Payable	(50,000)	(83,332)	(62,502)	-	-	(195,834)
Debt Issuance Costs	-	-	-	(815,795)	-	(815,795)
Proceeds from Issuance of Bonds	-	-	-	18,320,000	-	18,320,000
Net Cash Provided (Used) by Financing Activities	(153,329)	(170,032)	400,805	17,504,205	-	17,581,649
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(166,460)	822,905	666,954	12,916,053	-	14,239,452
Cash and Cash Equivalents - Beginning of Year	1,001,939	452,446	305,646	-	-	1,760,031
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 835,479</u>	<u>\$ 1,275,351</u>	<u>\$ 972,600</u>	<u>\$ 12,916,053</u>	<u>\$ -</u>	<u>\$ 15,999,483</u>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>						
Cash Paid for Interest	<u>\$ 13,754</u>	<u>\$ 14,873</u>	<u>\$ 24,912</u>	<u>\$ 217,823</u>	<u>\$ -</u>	<u>\$ 271,362</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES</b>						
Loan Forgiveness	<u>\$ 217,722</u>	<u>\$ 760,600</u>	<u>\$ 222,278</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,200,600</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>						
Cash and Cash Equivalents	\$ 835,479	\$ 1,275,351	\$ 972,600	\$ -	\$ -	\$ 3,083,430
Restricted Cash and Cash Equivalents	-	-	-	12,916,053	-	12,916,053
Total Cash and Cash Equivalents	<u>\$ 835,479</u>	<u>\$ 1,275,351</u>	<u>\$ 972,600</u>	<u>\$ 12,916,053</u>	<u>\$ -</u>	<u>\$ 15,999,483</u>



**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Scholarship Prep Charter School (the School) was formed as a nonprofit public benefit corporation on May 8, 2015 for purposes of operating as a California public school. The School was approved by the State Board of Education in July 2016 as California charter 1808 (Santa Ana). Scholarship Prep Charter School – Oceanside (Oceanside) opened August 29, 2017 as California charter 1883. Scholarship Prep Charter School – Lomita-Harbor City (South Bay) was in its start-up year during the year ended June 30, 2020 and opened in August 2019 as California charter 2042. The School's mission is to provide a university-inspired pathway of success while closing the achievement gap for all students, including foster youth and those underserved.

Scholarship Prep Charter School (Santa Ana) is authorized to operate as a charter through the Orange County Department of Education (the County). In July 2016, the board of directors of the Orange County Department of Education approved the School for their initial five-year term. The charter may be revoked by the County for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Scholarship Prep Charter School – Oceanside (Oceanside) is authorized to operate as a charter through the San Diego County Department of Education (the County). In June 2017, the board of directors of the San Diego County Department of Education approved the School for their initial five-year term. The charter may be revoked by the County for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Scholarship Prep Charter School – Lomita-Harbor City (South Bay) is authorized to operate as a charter through the Los Angeles Unified School District (the District). In May 2019, the board of directors of the Los Angeles Unified School District approved the School for their initial five-year term. The charter may be revoked by the District for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

The consolidated financial statements also include the activities of Scholarship Prep Facility Holdings, LLC, a single member, special purpose entity formed for the purpose of holding property for the use of Scholarship Prep Charter School. Inter entity transactions and balances have been eliminated in consolidation.

**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.

**SCHOLARSHIP PREP CHARTER SCHOOL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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.

**Functional Allocation of Expenses**

Costs of providing the School's programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

**Cash and Cash Equivalents and Restricted Cash and Cash Equivalents**

The School defines its cash and cash equivalents and restricted cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

**Net Asset Classes**

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

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

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Accounts Receivable**

Accounts receivable primarily represent amounts 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.

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

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

**Income Taxes**

The School is a nonprofit entity exempt from the payment of income taxes under Internal Revenue Code (IRC) 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 files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

**Compensated Absences**

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

**Property Taxes**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of the School is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

**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.

**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 consolidated statement of financial position. As of June 30, 2021, the School has received conditional grants of \$5,353,556 of which \$825,563 is recognized as deferred revenue in the consolidated statement of financial position because conditions have not yet been met.

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

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

**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 are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**Other Revenue**

Other revenue consists primarily of student activities and other services. The performance obligation for providing these services is simultaneously received and consumed by the students; therefore, the revenue is recognized immediately upon sale.

**Evaluation of Subsequent Events**

The School has evaluated subsequent events through January 26, 2022, 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 consolidated statement of financial position date. Financial assets available for general expenditures are comprised of the following as of June 30, 2021:

Cash and Cash Equivalents	\$ 3,083,430
Accounts Receivable - Federal and State	5,271,400
Less: Net Assets With Donor Restrictions	<u>(42,172)</u>
Financial Assets Available for General Expenditure	<u>\$ 8,312,658</u>

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

**NOTE 3 CONCENTRATION OF CREDIT RISK**

The School maintains substantially all of its cash in the Orange County Treasury and the San Diego Treasury (the County). Each County pools these funds with those of other educational organizations in the county and invests the cash. These pooled funds are carried at costs which approximates market value.

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 3 CONCENTRATION OF CREDIT RISK (CONTINUED)**

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq.

The funds maintained by the County are either secured by federal depository insurance or collateralized. The fair value of the School's deposits in these pools as of June 30, 2021, as provided by the pool sponsors, was approximately \$289,995 in Orange County Treasury and \$662,690 in San Diego County Treasury.

The School also maintains cash balances held in banks 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 RESTRICTED CASH AND CASH EQUIVALENTS**

The School's restricted cash and cash equivalents as of June 30, 2021 consisted of \$12,916,053 held in relation to the School's bond financing to build facilities.

**NOTE 5 PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment in the accompanying consolidated financial statements is presented net of accumulated depreciation. The School capitalizes all expenditures for land, buildings, and equipment in excess of \$5,000. Depreciation expense for the year ended June 30, 2021 was \$207,378.

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

Land	\$ 3,500,000
Buildings	821,065
Equipment	574,872
Construction in Progress	1,011,251
Subtotal	<u>5,907,188</u>
Less: Accumulated Depreciation	(548,259)
Total Property, Plant, and Equipment, Net	<u><u>\$ 5,358,929</u></u>

**NOTE 6 EMPLOYEE RETIREMENT**

**Defined Contribution Plan**

The School offers an IRC Section 403(b) retirement plan to each of its qualifying employees. The School matches up to 3% for classified employees. During the year ended June 30, 2021, the School contributed \$97,865 to this plan.

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 6 EMPLOYEE RETIREMENT (CONTINUED)**

**Multiemployer Defined Benefit Pension Plans**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the state of California. Certificated employees are members of the State Teachers' Retirement System (STRS). The risks of participating in this multiemployer defined benefit pension plan are different from single employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature and detailed in Teachers' Retirement Law, and (c) if the School chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. The School has no plans to withdraw from this multiemployer plan.

**State Teachers' Retirement System (STRS)**

Plan Description

The School contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiemployer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2020 total STRS plan net assets are \$283 billion, the total actuarial present value of accumulated plan benefits is \$405 billion, contributions from all employers totaled \$6.1 billion, and the plan is 67.1% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and [www.calstrs.com](http://www.calstrs.com).

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 10.21% of their salary. The School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for year ended June 30, 2021 was 16.15% of annual payroll. The contribution requirements of the plan members are established and may be amended by state statute.

The School's contributions to STRS since it began operations are as follows:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2019	\$ 458,619	100%
2020	810,403	100%
2021	877,492	100%

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 6 EMPLOYEE RETIREMENT (CONTINUED)**

**Multiemployer Defined Benefit Pension Plans (Continued)**

**Public Employees' Retirement System (PERS)**

Plan Description

The School contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiemployer public employee retirement system defined benefit pension plan administered by CalPERS. Plan information for PERS is not publicly available. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2020, the School Employer Pool total plan assets are \$72 billion, the present value of accumulated plan benefits is \$102 billion, contributions from all employers totaled \$2.9 billion, and the plan is 70% funded. The School did not contribute more than 5% of the total contributions to the plan.

Copies of the CalPERS' annual financial reports may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814 and [www.calpers.ca.gov](http://www.calpers.ca.gov).

Funding Policy

Active plan members brought into PERS membership prior to January 1, 2013, are required to contribute 7.0% of their salary while new members after January 1, 2013 are required to contribute 7.0%. The school is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for year ended June 30, 2021 was 20.7%. The contribution requirements of the plan members are established and may be amended by state statute.

The School's contributions to PERS since it began operations are as follows:

<u>Year Ended June 30.</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2019	\$ 199,236	100%
2020	436,943	100%
2021	287,116	100%

**NOTE 7 FACTORED RECEIVABLES**

The School entered into an agreement with Charter Asset Management to factor attendance and grant receivables. The amount of the factored receivables liability as of June 30, 2021 is \$513,771. The full amount is expected to be repaid by November 2021.

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 8 LINE OF CREDIT**

The School has a revolving line of credit for \$1,200,000 from Charter Asset Management. The interest rate is 7.95%. The line of credit matures on April 30, 2022. At June 30, 2021, the outstanding balance was \$259,507.

**NOTE 9 LONG-TERM DEBT**

**Notes Payable - Intercompany**

The School entered into an intercompany loan for \$500,000 between Santa Ana and South Bay for start-up costs for the South Bay charter. The loan bears no interest and is due in full in 2022.

**Notes Payable**

In August 2016, Santa Ana received a revolving loan from the Charter School Finance Authority in the amount of \$250,000. The loan requires annual principal payments of \$50,000. The loan has a term of five years, matures in March 2022, and carries an interest rate of 0.62%. Annual payments of principal and interest are deducted from the School's apportionment. The balance outstanding as of June 30, 2021 was \$50,000.

In December 2018, Oceanside received a revolving loan from the Charter School Finance Authority in the amount of \$250,000. The loan requires annual principal payments of \$62,502. The loan has a term of four years, matures in January 2023, and carries an interest rate of 2.44%. The balance outstanding as of June 30, 2021 was \$83,334.

In October 2019, South Bay received a revolving loan from the Charter School Finance Authority in the amount of \$250,000. The loan requires annual principal payments of \$62,502. The loan has a term of four years, matures in January 2024, and carries an interest rate of 2.01%. The balance outstanding as of June 30, 2021 was \$187,498.

**PPP Loan**

In June 2020, the School received a loan from Umpqua Bank in the amount of \$1,200,600 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the Paycheck Protection Program (the PPP Loan). The PPP Loan has a term of two years and is unsecured and guaranteed by the U.S. Small Business Administration. 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 10 months after the covered period, then payment of principal and interest shall begin on that date.

In May 2021, the principal amount of \$1,200,600, along with accrued interest of \$12,000, 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 School's financial position.



**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

**Bonds Payable**

In December 2020, Scholarship Prep Facility Holdings, LLC (the LLC) obtained financing through the California School Finance Authority (CSFA). The \$18,320,000 loan is to be applied to the cost of acquisition, construction, renovation, and equipping of school facilities. The balance of bonds payable as of June 30, 2021 was \$18,320,000.

The loan agreement requires the School to comply with various covenants, conditions, and restrictions, including maintaining certain financial ratios. The bonds bear interest rates of 5.00% and require the LLC to maintain a bond reserve cash account equal to the bond reserve requirement (currently \$1,111,000). This amount is included in Restricted Cash and Cash Equivalents on the consolidated statement of financial position. Bonds payable are reported on the consolidated statement of financial position net of issue costs of \$777,094. The issue costs are being amortized over the life of the bonds.

Future maturities of non-intercompany notes and bonds payable are as follows at June 30, 2021:

<u>Year Ending June 30.</u>	<u>Amount</u>
2022	\$ 195,836
2023	62,502
2024	62,494
2025	195,000
2026	200,000
Thereafter	17,925,000
Total	18,640,832
Less: Unamortized issue costs	(777,094)
Total	<u>\$ 17,863,738</u>

**NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>Amount</u>
Subject to Expenditure for Specified Purpose:	
SB-117 COVID-19 Response Funds	\$ 838
No Kid Hungry Grant	41,334
Total Net Assets with Donor Restrictions	<u>\$ 42,172</u>

**SCHOLARSHIP PREP CHARTER SCHOOL  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 11 OPERATING LEASES**

The School leases facilities under agreements expiring from July 2021 through August 2047. Lease expense for the year ended June 30, 2021 was \$1,099,197.

Future minimum lease payments are as follows at June 30, 2021:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,720,122
2023	2,101,155
2024	2,261,812
2025	1,880,907
2026	1,979,763
Thereafter	40,933,062
Total	<u>\$ 50,876,821</u>

**NOTE 12 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.

The School is subject to a claim that arose in the normal course of business. The school is working with legal counsel in defending itself against this claim. As of the date of these consolidated financial statements, the outcome cannot be predicted and no range of loss can be estimated.

In March 2020, 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.

**NOTE 13 FUNCTIONALIZED EXPENSES**

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, pension expense, other employee benefits, payroll taxes, other fees for services, office expenses, information technology, and other expenses, which are allocated on the basis of estimates of time and effort.

**SUPPLEMENTARY INFORMATION**



**SCHOLARSHIP PREP CHARTER SCHOOL  
SCHEDULE OF INSTRUCTIONAL TIME  
YEAR ENDED JUNE 30, 2021  
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>Traditional Calendar Days</u>	<u>Status</u>
<b>Scholarship Prep Charter School (Santa Ana)</b>		
Kindergarten	179	In Compliance
Grade 1	179	In Compliance
Grade 2	179	In Compliance
Grade 3	179	In Compliance
Grade 4	179	In Compliance
Grade 5	179	In Compliance
Grade 6	179	In Compliance
Grade 7	179	In Compliance
Grade 8	179	In Compliance
<b>Scholarship Prep Charter School - Oceanside (Oceanside)</b>		
Kindergarten	179	In Compliance
Grade 1	179	In Compliance
Grade 2	179	In Compliance
Grade 3	179	In Compliance
Grade 4	179	In Compliance
Grade 5	179	In Compliance
Grade 6	179	In Compliance
Grade 7	179	In Compliance
Grade 8	179	In Compliance
<b>Scholarship Prep Charter School - Lomita-Harbor City (South Bay)</b>		
Kindergarten	179	In Compliance
Grade 1	179	In Compliance
Grade 2	179	In Compliance
Grade 3	179	In Compliance
Grade 4	179	In Compliance
Grade 5	179	In Compliance
Grade 6	179	In Compliance
Grade 7	179	In Compliance
Grade 8	179	In Compliance

*See the accompanying Notes to Supplementary Information.*

**SCHOLARSHIP PREP CHARTER SCHOOL  
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021  
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>Santa Ana</u>	<u>Oceanside</u>	<u>South Bay</u>
June 30, 2021 Annual Financial Report Fund Balances (Net Assets)	\$ 3,573,955	\$ 2,666,960	\$ 767,177
Adjustments and Reclassifications:			
Increase (Decrease) of Fund Balance (Net Assets):			
Cash and Cash Equivalents	(8,482)	7,386	(8,086)
Accounts Receivable - Federal and State	(14,570)	(1,595)	308,812
Prepaid Expenses and Other Assets	5,298	5,344	(6,824)
Accounts Payable and Accrued Liabilities	43,482	(4,947)	511,361
Deferred Revenue	-	-	204,125
Notes Payable	-	-	(1,013,771)
Net Adjustments and Reclassifications	<u>25,728</u>	<u>6,188</u>	<u>(4,383)</u>
June 30, 2021 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 3,599,683</u>	<u>\$ 2,673,148</u>	<u>\$ 762,794</u>

See accompanying Notes to Supplementary Information.

**SCHOLARSHIP PREP CHARTER SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2021  
(SEE INDEPENDENT AUDITORS' REPORT)**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Santa Ana	Oceanside	South Bay	Federal Expenditures Total
<b>U.S. Department of Education</b>						
Pass-Through Programs From California Department of Education:						
Every Child Succeeds Act:						
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 148,681	\$ 101,154	\$ 76,641	\$ 326,476
Title II, Part A, Improving Teacher Quality	84.367	14341	17,415	15,755	10,824	43,994
Title III, English Learner Student Program	84.365	14346	5,382	5,843	2,083	13,308
Title IV, Part A, Student Support and Academic Enrichment	84.424	n/a	8,004	1,427	832	10,263
Special Education Cluster: IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	72,333	51,053	49,482	172,868
Coronavirus Aid, Relief, and Economic Security Act (CARES Act):						
Governor's Emergency Education Relief Fund (GEER)	84.425C	15517	27,141	29,901	12,880	69,922
Elementary and Secondary School Emergency Relief Fund	84.425D	15536	118,454	76,363	44,863	239,680
ESSER - California Community Schools Partnership Program	84.425	15537	47,500	-	-	47,500
Subtotal: Pass-Through Programs			<u>444,910</u>	<u>281,496</u>	<u>197,605</u>	<u>924,011</u>
Charter Schools Program Grant	84.282M	n/a	404,308	706,042	544,703	1,655,053
Total U.S. Department of Education			<u>849,218</u>	<u>987,538</u>	<u>742,308</u>	<u>2,579,064</u>
<b>U.S. Department of Agriculture</b>						
Pass-Through Programs From California Department of Education:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	23165	79,317	136,711	30,883	246,911
Especially Needy Breakfast	10.553	23165	49,794	85,824	19,387	155,005
Total Child Nutrition Cluster			<u>129,111</u>	<u>222,535</u>	<u>50,270</u>	<u>401,916</u>
Total U.S. Department of Agriculture			<u>129,111</u>	<u>222,535</u>	<u>50,270</u>	<u>401,916</u>
<b>U.S. Department of the Treasury</b>						
Pass-Through Programs From California Department of Education:						
Coronavirus Relief Fund	21.019	25516	499,273	219,711	151,207	870,191
Total U.S. Department of the Treasury			<u>499,273</u>	<u>219,711</u>	<u>151,207</u>	<u>870,191</u>
Total Expenditures of Federal Awards			<u>\$ 1,477,602</u>	<u>\$ 1,429,784</u>	<u>\$ 943,785</u>	<u>\$ 3,851,171</u>

n/a - Not Applicable and/or Not Available.

See accompanying Notes to Supplementary Information.

**SCHOLARSHIP PREP CHARTER 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 corresponding provisions of the California Education Code.

**NOTE 2 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED CONSOLIDATED 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.

**NOTE 3 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the School under programs of the federal governmental for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The School has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.





**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Scholarship Prep Charter School  
Santa Ana, 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 Scholarship Prep Charter 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, cash flows, and functional expenses for the year then ended, the related notes to the consolidated financial statements, and have issued our report thereon dated January 26, 2022.

**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  
January 26, 2022



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Scholarship Prep Charter School  
Los Angeles, California

### **Report on Compliance for Each Major Federal Program**

We have audited the compliance of Scholarship Prep Charter School (the School), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021 the School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of federal awards applicable to its federal program.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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 compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.


### **Report on Internal Control Over Compliance**

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's 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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 federal 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 a type of compliance requirement of a federal program that is less severe than a material weakness, 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, California  
January 26, 2022



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors  
Scholarship Prep Charter School  
Santa Ana, California

We have audited Scholarship Prep Charter 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
School Districts, County Office of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes

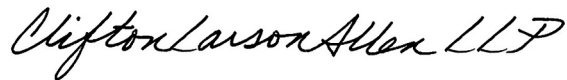
<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Charter Schools:	
Independent Study Course Based	Not applicable
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instructional/Independent Study	Not applicable
Determination of Funding 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  
January 26, 2022

**SCHOLARSHIP PREP CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2021**

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**Section I – Summary of Auditors’ Results**

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**Consolidated financial statements**

1. Type of auditors’ report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified? \_\_\_\_\_ yes        x   none reported
3. Noncompliance material to financial statements noted? \_\_\_\_\_ yes        x   no

**Federal Awards**

1. Internal control over major federal programs:
- Material weakness(es) identified? \_\_\_\_\_ yes        x   no
  - Significant deficiency(ies) identified? \_\_\_\_\_ yes        x   none reported
2. Type of auditors’ report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes        x   no

**Identification of Major Federal Programs**

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
10.555, 10.553	Child Nutrition Cluster
21.019	Coronavirus Relief Fund
84.425C	Governor’s Emergency Education Relief (GEER) Fund
84.425D	Elementary and Secondary School Emergency Relief (ESSER) Fund
84.425	ESSER - California Community Schools Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes        x   no

**SCHOLARSHIP PREP CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2021**

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: Related and Supplemental Instruction
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

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***Section II – Financial Statement Findings***

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

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***Section III – Major Federal Program Findings***

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Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

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***Section IV – State Compliance Findings***

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Our audit did not disclose any matters required to be reported in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.



**SCHOLARSHIP PREP CHARTER SCHOOL  
SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2021**

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

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