

SCHOLARSHIP PREP CHARTER SCHOOL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

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**



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YEAR ENDED JUNE 30, 2019**

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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 financial statements of Scholarship Prep Charter School (the School), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to on page 1 present fairly, in all material respects, the financial position of the School as of June 30, 2019, 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 financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 2019 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
December 16, 2019

**SCHOLARSHIP PREP CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019**

| | <u>Santa Ana</u> | <u>Oceanside</u> | <u>South Bay</u> | <u>Eliminations</u> | <u>Total</u> |
|--|---------------------|-------------------|-------------------|---------------------|---------------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,584,742 | \$ 217,517 | \$ - | \$ - | \$ 1,802,259 |
| Accounts Receivable - Federal and State | 425,707 | 380,526 | - | - | 806,233 |
| Accounts Receivable - Intercompany | 375,559 | - | - | (375,559) | - |
| Prepaid Expenses and Other Assets | 174,941 | 74,201 | 190,008 | - | 439,150 |
| Total Current Assets | <u>2,560,949</u> | <u>672,244</u> | <u>190,008</u> | <u>(375,559)</u> | <u>3,047,642</u> |
| LONG-TERM ASSETS | | | | | |
| Property, Plant, and Equipment, Net | 254,582 | 192,459 | - | - | 447,041 |
| Total Long-Term Assets | <u>254,582</u> | <u>192,459</u> | <u>-</u> | <u>-</u> | <u>447,041</u> |
| Total Assets | <u>\$ 2,815,531</u> | <u>\$ 864,703</u> | <u>\$ 190,008</u> | <u>\$ (375,559)</u> | <u>\$ 3,494,683</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accrued Liabilities | \$ 169,943 | \$ 295,055 | \$ 25,854 | \$ - | \$ 490,852 |
| Intercompany Accounts Payable | - | - | 375,559 | (375,559) | - |
| Notes Payable, Current Portion | 50,000 | - | - | - | 50,000 |
| Total Current Liabilities | <u>219,943</u> | <u>295,055</u> | <u>401,413</u> | <u>(375,559)</u> | <u>540,852</u> |
| LONG-TERM LIABILITIES | | | | | |
| Notes Payable | 99,602 | 250,000 | - | - | 349,602 |
| Total Long-Term Liabilities | <u>99,602</u> | <u>250,000</u> | <u>-</u> | <u>-</u> | <u>349,602</u> |
| Total Liabilities | <u>319,545</u> | <u>545,055</u> | <u>401,413</u> | <u>(375,559)</u> | <u>890,454</u> |
| NET ASSETS | | | | | |
| Without Donor Restrictions | 2,474,106 | 319,648 | (211,405) | - | 2,582,349 |
| With Donor Restrictions | 21,880 | - | - | - | 21,880 |
| Total Net Assets | <u>2,495,986</u> | <u>319,648</u> | <u>(211,405)</u> | <u>-</u> | <u>2,604,229</u> |
| Total Liabilities and Net Assets | <u>\$ 2,815,531</u> | <u>\$ 864,703</u> | <u>\$ 190,008</u> | <u>\$ (375,559)</u> | <u>\$ 3,494,683</u> |

See accompanying Notes to Financial Statements.

**SCHOLARSHIP PREP CHARTER SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

| | <u>Santa Ana</u> | <u>Oceanside</u> | <u>South Bay</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|---------------------|
| NET ASSETS WITHOUT DONOR RESTRICTION | | | | |
| REVENUES | | | | |
| State Revenue: | | | | |
| State Aid | \$ 4,533,810 | \$ 1,666,597 | \$ - | \$ 6,200,407 |
| Other State Revenue | 714,554 | 395,639 | - | 1,110,193 |
| Federal Revenue: | | | | |
| Grants and Entitlements | 509,311 | 239,471 | - | 748,782 |
| Local Revenue: | | | | |
| In-Lieu Property Tax Revenue | 7,562 | 929,798 | - | 937,360 |
| Contributions | 117,753 | - | 50,000 | 167,753 |
| Interest Income | 2,371 | 1,715 | - | 4,086 |
| Other Revenue | 2,953 | 88,924 | - | 91,877 |
| Total Revenues | <u>5,888,314</u> | <u>3,322,144</u> | <u>50,000</u> | <u>9,260,458</u> |
| EXPENSES | | | | |
| Program Services | 3,970,587 | 2,714,114 | - | 6,684,701 |
| Management and General | 987,547 | 655,184 | 261,405 | 1,904,136 |
| Total Expenses | <u>4,958,134</u> | <u>3,369,298</u> | <u>261,405</u> | <u>8,588,837</u> |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION | 908,300 | (47,154) | (211,405) | 649,741 |
| NET ASSETS WITH DONOR RESTRICTION | | | | |
| State Revenue: | | | | |
| Other State Revenue | 21,880 | - | - | 21,880 |
| CHANGE IN NET ASSETS WITH DONOR RESTRICTION | <u>21,880</u> | <u>-</u> | <u>-</u> | <u>21,880</u> |
| TOTAL CHANGE IN NET ASSETS | 930,180 | (47,154) | (211,405) | 671,621 |
| Net Assets, Beginning of Year | <u>1,565,806</u> | <u>366,802</u> | <u>-</u> | <u>1,932,608</u> |
| NET ASSETS, END OF YEAR | <u>\$ 2,495,986</u> | <u>\$ 319,648</u> | <u>\$ (211,405)</u> | <u>\$ 2,604,229</u> |

See accompanying Notes to Financial Statements.

**SCHOLARSHIP PREP CHARTER SCHOOL
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019**

| | <u>Santa Ana</u> | <u>Oceanside</u> | <u>South Bay</u> | <u>Eliminations</u> | <u>Total</u> |
|--|--------------------|-------------------|------------------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Change in Net Assets | \$ 930,180 | \$ (47,154) | \$ (211,405) | \$ - | \$ 671,621 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities: | | | | | |
| Depreciation | 50,123 | 22,179 | - | - | 72,302 |
| Change in Operating Assets: | | | | | |
| Accounts Receivable - Federal and State | (106,276) | 671,846 | - | - | 565,570 |
| Intercompany Accounts Receivable | 473,473 | - | - | 375,559 | 849,032 |
| Prepaid Expenses and Other Assets | (3,686) | (25,823) | (190,008) | - | (219,517) |
| Change in Operating Liabilities: | | | | | |
| Accounts Payable and Accrued Liabilities | (28,277) | 78,709 | 25,854 | - | 76,286 |
| Intercompany Accounts Payable | - | (849,032) | 375,559 | (375,559) | (849,032) |
| Net Cash Provided (Used) by Operating Activities | <u>1,315,537</u> | <u>(149,275)</u> | <u>-</u> | <u>-</u> | <u>1,166,262</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchases of Property, Plant, and Equipment | (16,432) | (10,000) | - | - | (26,432) |
| Net Cash Used by Investing Activities | <u>(16,432)</u> | <u>(10,000)</u> | <u>-</u> | <u>-</u> | <u>(26,432)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from Debt | - | 250,000 | - | - | 250,000 |
| Repayments of Debt | (200,000) | - | - | - | (200,000) |
| Net Cash Provided (Used) by Financing Activities | <u>(200,000)</u> | <u>250,000</u> | <u>-</u> | <u>-</u> | <u>50,000</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 1,099,105 | 90,725 | - | - | 1,189,830 |
| Cash and Cash Equivalents, Beginning of Year | <u>485,637</u> | <u>126,792</u> | <u>-</u> | <u>-</u> | <u>612,429</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$1,584,742</u> | <u>\$ 217,517</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,802,259</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | | |
| Cash Paid for Interest | <u>\$ 32,194</u> | <u>\$ 3,671</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,865</u> |

See accompanying Notes to Financial Statements.

**SCHOLARSHIP PREP CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

| | <u>Program Services</u> | <u>Management and General</u> | <u>Total Expenses</u> |
|------------------------------------|-----------------------------|-----------------------------------|---------------------------|
| Salaries and Wages | \$ 3,051,806 | \$ 990,167 | \$ 4,041,973 |
| Pension Expense | 514,618 | 143,237 | 657,855 |
| Other Employee Benefits | 343,251 | 100,320 | 443,571 |
| Payroll Taxes | 104,829 | 26,206 | 131,035 |
| Management Fees | 230,790 | 40,728 | 271,518 |
| Legal Expenses | 12,394 | 70,237 | 82,631 |
| Accounting Expenses | 1,570 | 8,899 | 10,469 |
| Instructional Materials | 225,462 | - | 225,462 |
| Other Fees for Services | 347,707 | 61,857 | 409,564 |
| Advertising and Promotion Expenses | 16,353 | - | 16,353 |
| Office Expenses | 418,655 | 59,086 | 477,741 |
| Information Technology Expenses | 52,271 | - | 52,271 |
| Occupancy Expenses | 820,370 | 287,993 | 1,108,363 |
| Travel Expenses | 91,518 | 6,967 | 98,485 |
| Interest Expense | - | 35,865 | 35,865 |
| Depreciation Expense | - | 72,302 | 72,302 |
| Insurance Expense | 41,024 | - | 41,024 |
| Other Expenses | 412,083 | 272 | 412,355 |
| | <u>412,083</u> | <u>272</u> | <u>412,355</u> |
| Total | <u>\$ 6,684,701</u> | <u>\$ 1,904,136</u> | <u>\$ 8,588,837</u> |

See accompanying Notes to Financial Statements.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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). A new site, Scholarship Prep Charter School – Oceanside (Oceanside), opened August 29, 2017 as California charter 1883. In the subsequent fiscal year, the School added another site, Scholarship Prep Charter School – Lomita-Harbor City (South Bay). South Bay was in its start-up year during the year ended June 30, 2019 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 Orange County Department of Education 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 San Diego County Department of Education 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.

Basis of Accounting

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

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

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

Cash and Cash Equivalents

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

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 revenue with donor restriction when received and without donor restriction 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.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

Accounts Receivables

Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2019. Management believes that all receivables are fully collectible; therefore, no provisions for uncollectible accounts were recorded.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Contributed Assets and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

Compensated Absences

The School does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2019.

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 recognized as revenue by the School based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in net assets without donor restriction, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restriction.

Contributions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions. Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The School is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. The School files an exempt return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Evaluation of Subsequent Events

The School has evaluated subsequent events through December 16, 2019, the date these financial statements were available to be issued.

NOTE 2 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. 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, 2019, as provided by the pool sponsors, was approximately \$643,597 in Orange County Treasury and \$192,732 in San Diego County Treasury.

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

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment in the accompanying 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, 2019 was \$72,302.

The components of property, plant, and equipment as of June 30, 2019 are as follows:

| | |
|---|--------------------------|
| Buildings | \$ 306,214 |
| Equipment | 311,784 |
| Subtotal | <u>617,998</u> |
| Less: Accumulated Depreciation | (170,957) |
| Total Property, Plant, and Equipment, Net | <u><u>\$ 447,041</u></u> |

NOTE 4 EMPLOYEE RETIREMENT

Multi-Employer 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 multiple-employer 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, 2018, total plan net assets are \$225 billion, the total actuarial present value of accumulated plan benefits is \$374 billion, contributions from all employers totaled \$4.9 billion, and the plan is 64% 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.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 EMPLOYEE RETIREMENT (CONTINUED)

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 9.205% 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. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for the year ended June 30, 2019 was 16.28% 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>June 30,</u> | <u>Contribution</u> | <u>Contributed</u> |
|-----------------|---------------------|--------------------|
| 2017 | \$ 123,708 | 100% |
| 2018 | 281,754 | 100% |
| 2019 | 451,499 | 100% |

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 multi-employer public employee retirement system defined benefit pension plan administered by CalPERS.

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 Comprehensive Annual Financial Report for the year ended June 30, 2018, the School Employer Pool total plan assets are \$60.9 billion, the total pension liability is \$99.6 billion, contributions from all employers totaled \$1.8 billion, and the plan is 72.1% 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.

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 6.5% 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 CalPERS Board of Administration. The required employer contribution rate for year ended June 30, 2019 was 18.062%. The contribution requirements of the plan members are established and may be amended by State statute.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 EMPLOYEE RETIREMENT (CONTINUED)

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> |
|--------------------------------|----------------------------------|--------------------------------|
| 2017 | \$ 27,069 | 100% |
| 2018 | 99,252 | 100% |
| 2019 | 189,975 | 100% |

NOTE 5 LONG-TERM DEBT

Notes Payable

The School had previously entered into an unsecured promissory note for \$150,000 for start-up costs for the Oceanside charter. During the year ended June 30, 2019 the note was paid in full.

California Department of Education Revolving Loan

The School received an unsecured revolving loan from the California Department of Education (CDE) in the amount of \$250,000. The loan requires annual principal payments of \$50,000. The loan has a term of 5 years, matures in June 2022 and carries an interest rate of 0.62%. Annual payments of principal and interest are deducted from the School's apportionment.

The loan repayments by year is as follows at June 30, 2019:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 2020 | \$ 112,502 |
| 2021 | 112,502 |
| 2022 | 112,504 |
| 2023 | 62,094 |
| Total | <u>\$ 399,602</u> |

NOTE 6 FACTORED RECEIVABLES

The School has entered into multiple agreements to factor attendance and grant receivables. The amount of factored receivables due at June 30, 2019 was \$150,000.

NOTE 7 OPERATING LEASES

The School leases facilities from Newsong Community Church of Orange County. The lease requires monthly rent payments of \$39,258 and expires on July 31, 2021. Total lease expense associated with this lease for the year ended June 30, 2019 was \$475,238.

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 OPERATING LEASES (CONTINUED)

The School leases facilities from Mission San Luis Rey Catholic Parish. The lease requires monthly rent payments of \$17,610 and expires on June 30, 2022. Total lease expense associated with this lease for the year ended June 30, 2019 was \$244,182.

In July 2019 the School entered into a lease agreement with Port City Church of Wilmington set to commence in July 2019. The lease requires monthly rent payments of \$36,000 and expires on June 30, 2024. The School did not have any lease expense associated with this lease for the year ended June 30, 2019.

Future minimum lease payments are as follows at June 30, 2019:

| <u>Year Ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| 2020 | \$ 705,089 |
| 2021 | 727,201 |
| 2022 | 748,334 |
| 2023 | 465,217 |
| 2024 | 476,847 |
| Total | <u>\$ 3,122,688</u> |

NOTE 8 CONTINGENCIES

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.

NOTE 9 FUNCTIONALIZED EXPENSES

The 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
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
YEAR ENDED JUNE 30, 2019**

The School was established in Orange County, when it was granted its first charter through Orange County Department of Education and its charter school status from the California Department of Education. The second charter was granted through the San Diego County Office of Education. The third charter was granted through the Los Angeles Unified School District however, did not open until August 2019. The charters may be revoked by their respective authorizers for material violations of the charter, failure to meet or make progress toward student outcomes, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

The charter school numbers are as follows:

Scholarship Prep Charter (Santa Ana): 1808
 Scholarship Prep Charter School – Oceanside (Oceanside): 1883
 Scholarship Prep – Lomita-Harbor City (South Bay): 2042

The Board of Directors and the Administrators as of June 30, 2019 were as follows:

BOARD OF DIRECTORS

| <u>Member</u> | <u>Office</u> | <u>Term Expires</u> |
|------------------------|---------------|---------------------|
| Dr. Charles Friedrichs | President | July 2021 |
| Rand Sperry | Board Member | July 2020 |
| Jerome Torres | Board Member | July 2021 |
| Taryn Burgess | Secretary | October 2020 |
| Crystal Madaule | Board Member | April 2022 |

ADMINISTRATORS

| | |
|-----------------------|--|
| Senator Gloria Romero | Co-Founder and Executive Director |
| Jason Watts | Co-Founder and Chief Operating Officer |

**SCHOLARSHIP PREP CHARTER SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2019**

| | Instructional Minutes | | Traditional Calendar Days | Status |
|--|-----------------------|--------|---------------------------------|---------------|
| | Requirement | Actual | | |
| Scholarship Prep Charter School (Santa Ana) | | | | |
| Kindergarten | 36,000 | 66,825 | 180 | In Compliance |
| Grade 1 | 50,400 | 61,200 | 180 | In Compliance |
| Grade 2 | 50,400 | 62,550 | 180 | In Compliance |
| Grade 3 | 50,400 | 63,900 | 180 | In Compliance |
| Grade 4 | 54,000 | 63,900 | 180 | In Compliance |
| Grade 5 | 54,000 | 63,900 | 180 | In Compliance |
| Grade 6 | 54,000 | 63,900 | 180 | In Compliance |
| Grade 7 | 54,000 | 63,900 | 180 | In Compliance |
| Grade 8 | 54,000 | 63,900 | 180 | In Compliance |
| Scholarship Prep Charter School - Oceanside (Oceanside) | | | | |
| Kindergarten | 36,000 | 62,610 | 180 | In Compliance |
| Grade 1 | 50,400 | 61,690 | 180 | In Compliance |
| Grade 2 | 50,400 | 61,690 | 180 | In Compliance |
| Grade 3 | 50,400 | 61,690 | 180 | In Compliance |
| Grade 4 | 54,000 | 61,690 | 180 | In Compliance |
| Grade 5 | 54,000 | 61,690 | 180 | In Compliance |
| Grade 6 | 54,000 | 61,690 | 180 | In Compliance |
| Grade 7 | 54,000 | 61,690 | 180 | In Compliance |
| Grade 8 | 54,000 | 61,690 | 180 | In Compliance |

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

**SCHOLARSHIP PREP CHARTER SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
YEAR ENDED JUNE 30, 2019**

| | Second Period Report | | Annual Report | |
|--|---|--------|--------------------|--------|
| | Classroom Based | Total | Classroom Based | Total |
| | Scholarship Prep Charter (Santa Ana) | | | |
| Grades TK/K-3 | 226.89 | 226.89 | 226.89 | 226.89 |
| Grades 4-6 | 118.52 | 118.52 | 118.69 | 118.69 |
| Grades 7-8 | 75.00 | 75.00 | 74.72 | 74.72 |
| Total | 420.41 | 420.41 | 420.30 | 420.30 |
| Scholarship Prep Charter School - Oceanside (Oceanside) | | | | |
| Grades TK/K-3 | 151.89 | 151.89 | 152.59 | 152.59 |
| Grades 4-6 | 97.36 | 97.36 | 97.51 | 97.51 |
| Grades 7-8 | 56.21 | 56.21 | 55.96 | 55.96 |
| Total | 305.46 | 305.46 | 306.06 | 306.06 |
| ADA Totals | 725.87 | 725.87 | 726.36 | 726.36 |

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

**SCHOLARSHIP PREP CHARTER SCHOOL
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

| | <u>Santa Ana</u> | <u>Oceanside</u> |
|---|---------------------|-------------------|
| June 30, 2019 Annual Financial Report Fund Balances (Net Assets) | \$ 2,495,993 | \$ 335,240 |
| Adjustments and Reclassifications: | | |
| Increase (Decrease) of Fund Balance (Net Assets): | | |
| Cash and Cash Equivalents | (392,515) | (20,962) |
| Accounts Receivable - Federal and State | - | (15,593) |
| Accounts Receivable - Other | 311,500 | - |
| Prepaid Expenses and Other Assets | 81,014 | 20,964 |
| Other Long-Term Assets | - | (1) |
| Accounts Payable and Accrued Liabilities | (4) | - |
| Deferred Revenue | - | 50,000 |
| Notes Payable, Current Portion | 99,600 | - |
| Notes Payable | <u>(99,602)</u> | <u>(50,000)</u> |
| Net Adjustments and Reclassifications | <u>(7)</u> | <u>(15,592)</u> |
| June 30, 2019 Audited Financial Statement Fund Balances (Net Assets) | <u>\$ 2,495,986</u> | <u>\$ 319,648</u> |

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

**SCHOLARSHIP PREP CHARTER SCHOOL
NOTES TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

NOTE 3 RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.



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

Board of Directors
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, 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 16, 2019.

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) to determine the 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 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 determination of financial statement amounts. 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
December 16, 2019



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 *2018-2019 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, 2019. 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 *2018-2019 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> |
|---|-----------------------------|
| School Districts, County Offices of Education, and Charter Schools: | |
| Educator Effectiveness | Not Applicable |
| California Clean Energy Jobs Act | No ¹ |
| Before/ After School Education and Safety Program | 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 |
| Local Control and Accountability Plan | Yes |
| Independent Study-Course Based | Not Applicable |
| Charter Schools: | |
| Attendance | Yes |
| Mode of Instruction | Yes |
| Nonclassroom-Based Instructional/Independent Study | Not Applicable |
| Determination of Funding for Nonclassroom-Based Instruction | Not Applicable |
| Annual Instructional Minutes – Classroom Based | Yes |
| Charter School Facility Grant Program | Yes |

¹ Procedures were not performed because the School did not have any California Clean Energy Jobs Act expenditures.

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, 2019.

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 *2018-2019 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
December 16, 2019

**SCHOLARSHIP PREP CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

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 |

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**SCHOLARSHIP PREP CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019**

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

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

