



Annual Financial Report  
June 30, 2019  
STEM Preparatory Schools, Inc.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

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**JUNE 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
STEM Preparatory Schools, Inc.  
(A California Nonprofit Public Benefit Corporation)  
Los Angeles, California

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

We have audited the accompanying combined financial statements of STEM Preparatory Schools, Inc. (STEM Prep) (A California Nonprofit Public Benefit Corporation), which operate Crown Preparatory Academy, Math and Science College Preparatory School (the Charter Schools), STEM Preparatory Elementary School (The Charter Elementary School), and 3200 Adams LLC and 1374 W 35<sup>th</sup> Street, LLC (the LLCs) are comprised of the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows 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.

### ***Auditor's 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; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 STEM Prep and the LLCs' 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 STEM Prep and the LLCs' 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 above present fairly, in all material respects, the respective financial position of STEM Prep and the LLCs', as of June 30, 2019, and the changes in its net assets, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, 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* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary 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. Such 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, Schedule of Expenditures of Federal Awards and the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2019, on our consideration of STEM Prep and the LLCs' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEM Prep and the LLCs' 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 STEM Prep and the LLCs' internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 9, 2019

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**COMBINED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

	Home Office	Charter Middle School	Charter High School
<b>ASSETS</b>			
Current Assets			
Cash	\$ 88,126	\$ 2,760,302	\$ 847,378
Restricted cash	-	-	-
Accounts receivable	113	528,529	837,943
Intercompany receivable	-	-	126,094
Prepaid expenses and other current assets	89,492	23,771	64,138
Total Current Assets	<u>177,731</u>	<u>3,312,602</u>	<u>1,875,553</u>
Non-Current Assets			
Security Deposit	-	339	31,939
Capital contribution	-	-	535,433
Long-term notes receivable	-	-	576,626
Fixed assets	86,493	318,344	457,115
Less: accumulated depreciation	<u>(14,660)</u>	<u>(273,722)</u>	<u>(105,023)</u>
Total Non-Current Assets	<u>71,833</u>	<u>44,961</u>	<u>1,496,090</u>
Total Assets	<u>\$ 249,564</u>	<u>\$ 3,357,563</u>	<u>\$ 3,371,643</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$ 68,291	\$ 151,663	\$ 222,587
Intercompany payable	-	-	-
Deferred revenue	89,400	-	-
Current portion of long-term obligations	-	-	207,627
Total Current Liabilities	<u>157,691</u>	<u>151,663</u>	<u>430,214</u>
Long-Term Obligations			
Non-current portion of long-term obligations	-	-	289,480
Total Liabilities	<u>157,691</u>	<u>151,663</u>	<u>719,694</u>
<b>NET ASSETS</b>			
Without donor restriction - designated for			
Clean Energy Program	-	-	122,430
Without donor restriction	<u>91,873</u>	<u>3,205,900</u>	<u>2,529,519</u>
Total Net Assets	<u>91,873</u>	<u>3,205,900</u>	<u>2,651,949</u>
Total Liabilities and Net Assets	<u>\$ 249,564</u>	<u>\$ 3,357,563</u>	<u>\$ 3,371,643</u>

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

Charter Elementary School	Adams LLC	35th St. LLC	Eliminations	Total
\$ 316,284	\$ 201,149	\$ 74	\$ -	\$ 4,213,313
-	283,062	-	-	283,062
460,946	-	3,850	-	1,831,381
-	-	-	(126,094)	-
36,368	-	15,156	(25,932)	202,993
<u>813,598</u>	<u>484,211</u>	<u>19,080</u>	<u>(152,026)</u>	<u>6,530,749</u>
18,727	-	2,500	-	53,505
310,082	-	-	(845,515)	-
-	-	-	-	576,626
40,876	12,899,371	2,175,288	-	15,977,487
(5,719)	(1,575,821)	(99,701)	-	(2,074,646)
<u>363,966</u>	<u>11,323,550</u>	<u>2,078,087</u>	<u>(845,515)</u>	<u>14,532,972</u>
<u>\$ 1,177,564</u>	<u>\$ 11,807,761</u>	<u>\$ 2,097,167</u>	<u>\$ (997,541)</u>	<u>\$ 21,063,721</u>
\$ 94,019	\$ 43,498	\$ 4,267	\$ -	\$ 584,325
-	126,094	-	(126,094)	-
-	-	25,932	(25,932)	89,400
62,502	-	81,414	-	351,543
<u>156,521</u>	<u>169,592</u>	<u>111,613</u>	<u>(152,026)</u>	<u>1,025,268</u>
187,498	12,711,044	1,385,376	-	14,573,398
<u>344,019</u>	<u>12,880,636</u>	<u>1,496,989</u>	<u>(152,026)</u>	<u>15,598,666</u>
-	-	-	-	122,430
833,545	(1,072,875)	600,178	(845,515)	5,342,625
<u>833,545</u>	<u>(1,072,875)</u>	<u>600,178</u>	<u>(845,515)</u>	<u>5,465,055</u>
<u>\$ 1,177,564</u>	<u>\$ 11,807,761</u>	<u>\$ 2,097,167</u>	<u>\$ (997,541)</u>	<u>\$ 21,063,721</u>

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

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**COMBINED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Home Office	Charter Middle School	Charter High School
<b>REVENUES</b>			
Local Control Funding Formula	\$ -	\$ 4,366,922	\$ 6,389,109
Federal revenue	-	825,201	660,801
Other State revenue	-	1,077,489	1,437,719
Local revenues	2,396,571	66,053	142,072
Total Revenue	<u>2,396,571</u>	<u>6,335,665</u>	<u>8,629,701</u>
<b>EXPENSES</b>			
Program services	1,019,059	5,274,078	6,843,593
Management and general	1,313,473	987,642	1,615,228
Total Expenses	<u>2,332,532</u>	<u>6,261,720</u>	<u>8,458,821</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTION AND TRANSFERS</b>	64,039	73,945	170,880
Capital contribution	-	-	-
<b>CHANGE IN NET ASSETS</b>	64,039	73,945	170,880
<b>NET ASSETS, BEGINNING OF YEAR</b>	27,834	3,131,955	2,481,069
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 91,873</u>	<u>\$ 3,205,900</u>	<u>\$ 2,651,949</u>

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

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Charter Elementary School	Adams LLC	35th St. LLC	Eliminations	Total
\$ 1,528,672	\$ -	\$ -	\$ -	\$ 12,284,703
631,337	-	-	-	2,117,339
280,568	-	-	-	2,795,776
166,707	597,244	605,916	(3,079,553)	895,010
<u>2,607,284</u>	<u>597,244</u>	<u>605,916</u>	<u>(3,079,553)</u>	<u>18,092,828</u>
2,234,105	568,510	280,272	(1,684,191)	14,535,426
359,925	529,761	35,548	(1,395,362)	3,446,215
<u>2,594,030</u>	<u>1,098,271</u>	<u>315,820</u>	<u>(3,079,553)</u>	<u>17,981,641</u>
13,254	(501,027)	290,096	-	111,187
-	-	310,082	(310,082)	-
13,254	(501,027)	600,178	(310,082)	111,187
820,291	(571,848)	-	(535,433)	5,353,868
<u>\$ 833,545</u>	<u>\$ (1,072,875)</u>	<u>\$ 600,178</u>	<u>\$ (845,515)</u>	<u>\$ 5,465,055</u>

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



**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**COMBINED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Home Office	Charter Middle School	Charter High School
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Increase (decrease) in unrestricted net assets	\$ 64,039	\$ 73,945	\$ 170,880
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used) by operating activities:			
Depreciation expense	9,115	40,947	33,948
Changes in operating assets and liabilities:			
Decrease (Increase) in accounts receivable	-	(163,176)	(53,882)
Decrease (Increase) in intercompany receivable	-	-	(558)
Decrease (Increase) in prepaid expenditures	(80,612)	7,210	46,651
Decrease (Increase) in security deposit	-	-	-
Increase (Decrease) in accounts payable	29,694	(11,932)	41,022
Increase (Decrease) in intercompany payable	-	-	-
(Decrease) in deferred revenue	89,400	-	-
Net Cash Provided by (Used in) Operating Activities	<u>111,636</u>	<u>(53,006)</u>	<u>238,061</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures, net	(30,996)	1,059	(221,087)
Capital contribution	-	-	-
Restricted cash released for use	-	-	-
Net Cash Provided by (Used in) Investing Activities	<u>(30,996)</u>	<u>1,059</u>	<u>(221,087)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loan proceeds	-	-	-
Long-term Notes Receivable	-	-	(364)
Loan principal payments	-	-	(250,110)
Net Cash Provided by (Used in) Financing Activities	<u>-</u>	<u>-</u>	<u>(250,474)</u>
<b>NET CHANGE IN CASH</b>	80,640	(51,947)	(233,500)
<b>CASH, BEGINNING OF YEAR</b>	7,486	2,812,249	1,080,878
<b>CASH, END OF YEAR</b>	<u>\$ 88,126</u>	<u>\$ 2,760,302</u>	<u>\$ 847,378</u>
<b>Supplemental cash flow disclosure:</b>			
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,001</u>

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

Charter Elementary School	Adams LLC	35th St. LLC	Eliminations	Total
\$ 13,254	\$ (501,027)	\$ 600,178	\$ (310,082)	\$ 111,187
5,180	568,510	99,701	-	757,401
(341,897)	-	(3,850)	-	(562,805)
-	-	-	558	-
(18,777)	-	(15,156)	-	(60,684)
(2,500)	-	(2,500)	-	(5,000)
(237,554)	-	4,267	-	(174,503)
-	558	-	(558)	-
-	(41,250)	25,932	-	74,082
<u>(582,294)</u>	<u>26,791</u>	<u>708,572</u>	<u>(310,082)</u>	<u>139,678</u>
592,442	-	(2,175,288)	-	(1,833,870)
(310,082)	-	-	310,082	-
-	453	-	-	453
<u>282,360</u>	<u>453</u>	<u>(2,175,288)</u>	<u>310,082</u>	<u>(1,833,417)</u>
250,000	-	1,500,000	-	1,750,000
-	-	-	-	(364)
-	-	(33,210)	-	(283,320)
<u>250,000</u>	<u>-</u>	<u>1,466,790</u>	<u>-</u>	<u>1,466,316</u>
(49,934)	27,244	74	-	(227,423)
366,218	173,905	-	-	4,440,736
<u>\$ 316,284</u>	<u>\$ 201,149</u>	<u>\$ 74</u>	<u>\$ -</u>	<u>\$ 4,213,313</u>
<u>\$ 2,984</u>	<u>\$ 521,979</u>	<u>\$ 33,034</u>	<u>\$ -</u>	<u>\$ 566,998</u>

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

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Home Office			Charter Middle School			Charter High School		
	Program Services	Management and General	Subtotal Expenses	Program Services	Management and General	Subtotal Expenses	Program Services	Management and General	Subtotal Expenses
<b>Personnel</b>									
Salaries	\$ 677,601	\$ 658,806	\$ 1,336,407	\$ 2,431,332	\$ 178,816	\$ 2,610,148	\$ 3,724,070	\$ 310,683	\$ 4,034,753
Employee benefits	42,800	52,558	95,358	266,585	20,454	287,039	380,033	23,018	403,051
Payroll taxes	123,209	75,749	198,958	766,224	13,031	779,255	449,165	38,097	487,262
Total Personnel	843,610	787,113	1,630,723	3,464,141	212,301	3,676,442	4,553,268	371,798	4,925,066
<b>Operating</b>									
Fees for services	49,652	369,247	418,899	358,411	13,963	372,374	125,147	48,882	174,029
Advertising and promotions	-	1,380	1,380	-	20,000	20,000	-	12,084	12,084
Office expenses	-	4,718	4,718	-	23,001	23,001	-	27,925	27,925
Information technology	16,989	22,875	39,864	-	9,289	9,289	-	18,371	18,371
Occupancy	-	-	-	320,578	23,577	344,155	628,060	59,386	687,446
Travel	76,183	27,201	103,384	21,783	460	22,243	41,751	12,125	53,876
Interest	-	-	-	-	-	-	-	9,001	9,001
Depreciation	9,115	-	9,115	40,947	-	40,947	33,948	-	33,948
Insurance	-	14,369	14,369	-	26,189	26,189	-	47,242	47,242
Other expenses	444	86,570	87,014	472,154	615,206	1,087,360	696,283	944,523	1,640,806
Capital outlay	17,801	-	17,801	76,616	-	76,616	237,549	-	237,549
Special education	-	-	-	69,360	-	69,360	84,507	-	84,507
Instructional materials	5,265	-	5,265	115,973	-	115,973	130,005	-	130,005
Nutrition	-	-	-	334,115	-	334,115	313,075	-	313,075
District oversight fee	-	-	-	-	43,656	43,656	-	63,891	63,891
Total Operating	175,449	526,360	701,809	1,809,937	775,341	2,585,278	2,290,325	1,243,430	3,533,755
Total Functional Expenses	\$ 1,019,059	\$ 1,313,473	\$ 2,332,532	\$ 5,274,078	\$ 987,642	\$ 6,261,720	\$ 6,843,593	\$ 1,615,228	\$ 8,458,821

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Charter Elementary School			Adams LLC			35th St. LLC			Elimination	Total
Program Services	Management and General	Subtotal Expenses	Program Services	Management and General	Subtotal Expenses	Program Services	Management and General	Subtotal Expenses		
\$ 1,032,018	\$ 131,296	\$ 1,163,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,144,622
75,081	10,734	85,815	-	-	-	-	-	-	-	871,263
148,653	9,839	158,492	-	-	-	-	-	-	-	1,623,967
<u>1,255,752</u>	<u>151,869</u>	<u>1,407,621</u>	-	-	-	-	-	-	-	<u>11,639,852</u>
165,089	17,003	182,092	-	5,000	5,000	-	-	-	-	1,152,394
-	5,830	5,830	-	-	-	-	-	-	-	39,294
-	17,559	17,559	-	-	-	-	-	-	-	73,203
-	10,824	10,824	-	-	-	-	-	-	-	78,348
290,878	37,006	327,884	-	-	-	180,571	-	180,571	(723,160)	816,896
2,717	2,535	5,252	-	-	-	-	-	-	-	184,755
-	2,984	2,984	-	521,979	521,979	-	33,034	33,034	-	566,998
5,180	-	5,180	568,510	-	568,510	99,701	-	99,701	-	757,401
-	15,504	15,504	-	2,244	2,244	-	2,244	2,244	-	107,792
31,522	83,524	115,046	-	538	538	-	270	270	(2,356,393)	574,641
214,716	-	214,716	-	-	-	-	-	-	-	546,682
22,767	-	22,767	-	-	-	-	-	-	-	176,634
105,209	-	105,209	-	-	-	-	-	-	-	356,452
140,275	-	140,275	-	-	-	-	-	-	-	787,465
-	15,287	15,287	-	-	-	-	-	-	-	122,834
<u>978,353</u>	<u>208,056</u>	<u>1,186,409</u>	<u>568,510</u>	<u>529,761</u>	<u>1,098,271</u>	<u>280,272</u>	<u>35,548</u>	<u>315,820</u>	<u>(3,079,553)</u>	<u>6,341,789</u>
<u>\$ 2,234,105</u>	<u>\$ 359,925</u>	<u>\$ 2,594,030</u>	<u>\$ 568,510</u>	<u>\$ 529,761</u>	<u>\$ 1,098,271</u>	<u>\$ 280,272</u>	<u>\$ 35,548</u>	<u>\$ 315,820</u>	<u>\$ (3,079,553)</u>	<u>\$ 17,981,641</u>

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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***NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES***

**STEM Preparatory Schools, Inc.**

STEM Preparatory Schools, Inc. (STEM Prep) previously known as Crown Preparatory Academy, Inc., was formed in 2008 as a California non-profit organization. STEM Prep operates three schools Crown Preparatory Academy (the Charter Middle School), Math and Science College Preparatory School (the Charter High School) and STEM Preparatory Elementary School (The Charter Elementary School).

**Mission**

The mission of STEM Prep is to operate a small network of high performing schools, in a targeted area of Los Angeles and to develop TK through twelfth grade scholars into successful college graduates and professionals, through equal access and inspiration, rigorous curriculum, and a commitment to STEM Prep's core values.

**Vision**

The vision of STEM Prep is to create a kindergarten through college pipeline of individuals who will transform their community by closing the socio-economic, ethnic, and gender gaps in STEM fields, and serving as role models who exhibit scholarliness, advocacy, perseverance, and kindness.

**STEM Preparatory Home Office**

STEM Preparatory Home Office (the Home Office) performs administrative support provided to the individual schools and accounted for separately within the combined financial statements. the Home Office uses an allocation of cost based on student enrollment to calculate expenses to be charged out on each charter school.

**Crown Preparatory Academy**

The Charter Middle School petitioned for a charter through Los Angeles Unified School District and was approved on May 6, 2010, and renewed in 2015, for a period of five years ending in 2020.

Charter school number authorized by the State: 1187

The Charter Middle School is located at 2055 West 24th Street, Los Angeles, California 90018, and opened on August 23, 2010. The Charter Middle School currently serves 460 students in grades fifth through eighth. The Charter Middle School is a California public charter school, organized to provide an underserved area of Los Angeles with a standards-aligned STEM-themed educational program to develop scholars into successful college graduates and professionals, through equal access and inspiration, rigorous curriculum, and a commitment to our Core Values.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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**Math and Science College Preparatory School**

The Charter High School petitioned through Los Angeles Unified School District (LAUSD) for a charter and was approved by the State of California Department of Education in 2012, for a period of five years ending in 2017. The Charter High School's petition was renewed in 2016 for a period of five years ending in 2022.

Charter school number authorized by the State: 1412

The Charter High School is now located at 3200 West Adams Boulevard, Los Angeles, California 90018 and first opened on August 8, 2013. The Charter High School currently serves 523 students in grades nine through twelve. The Charter High School is a California public charter school, organized to provide an underserved area of Los Angeles with a standards-aligned STEM-themed educational program to develop scholars into successful college graduates and professionals through equal access and inspiration, rigorous curriculum, and a commitment to our Core Values.

**STEM Preparatory Elementary School**

The Charter Elementary School petitioned through Los Angeles Unified School District (LAUSD) for a charter and was approved by the State of California Department of Education in 2018, for a period of five years ending in 2023.

Charter school number authorized by the State: 1925

The Charter Elementary School is located at 1374 West 35th Street, Los Angeles, California 90007 and will be opened in August 2018. The Charter Elementary School is a California public charter school, organized to provide an underserved area of Los Angeles with a standards-aligned STEM-themed educational program to develop scholars into successful college graduates and professionals, through equal access and inspiration, rigorous curriculum and a commitment to our Core Values.

**Other Related Entities**

**3200 Adams, Holding Corp**

During 2016, 3200 Adams, Holding Corp (the Holding Corp) was formed (exclusively for the benefit of, to perform the functions of, and to carry out the purposes of STEM Prep) for charitable purposes as specified in Internal Revenue Service Code Section 501(c)(3). There was no activity during the current year.

**3200 Adams, LLC.**

During 2016, 3200 Adams, LLC, (the Adams LLC) was formed (exclusively for the benefit of, to perform the functions of, and to carry out the purposes of STEM Prep), for charitable purposes as specified in Internal Revenue Service Code Section 501(c)(3). The Charter High School makes lease payments to the Adams, LLC, in accordance with the lease agreement.

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**1374 W. 35<sup>th</sup> St, LLC.**

During 2018, 1374 W. 35<sup>th</sup> St, LLC, (the 35<sup>th</sup> St. LLC) was formed (exclusively for the benefit of, to perform the functions of, and to carry out the purposes of STEM Prep), for charitable purposes as specified in Internal Revenue Service Code Section 501(c)(3). The Charter Elementary School makes lease payments to the 35<sup>th</sup> St. LLC, in accordance with the lease agreement.

**Joint Powers Agency and Risk Management Pools** - STEM Prep is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of STEM Prep. Additional information is presented in Note 14 to the combined financial statements.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Home Office, the Charter Elementary School, the Charter Middle School, and the Charter High School, because they are divisions of STEM Prep and the Adams LLC, and the 35<sup>th</sup> St. LLC, because they are related entities. All significant intracompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as STEM Prep.

The consolidated financial statements include the accounts of STEM Prep and a related party, the Holding Corp, a California nonprofit public benefit corporations formed to provide support to STEM Prep, and its charter Schools. All material intercompany transactions have been eliminated (Eliminations). As a part of its mission, the Holding Corp has created several limited liability companies that own real estate for educational purposes. The Holding Corp is the sole member of these LLCs. They lease these facilities to STEM Prep for use by the schools. Since this support is closely aligned with STEM Prep and they are financially inter-related, the Holding Corp financial information is consolidated with the STEM Prep audit. This consolidation is required due to common control with shared leadership and management. For disclosure purposes, the financial information of the two entities are separated within the report as a matter of clarification.

**Cash**

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

**Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019, the allowance was \$0.

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**Prepaid Expenses/Security Deposit**

Prepaid expenses represent amounts paid in advance of receiving goods or services. STEM Prep has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

**Capital Contribution**

The Charter High School invested \$535,433 in a capital contribution to the Adams LLC as an investment for the building improvement located at 3200 W. Adams Blvd. in the city of Los Angeles, CA 90018 for its campus location.

The Charter Elementary School invested \$310,082 in a capital contribution to the 35<sup>th</sup> St. LLC as an investment for the building improvement located at 1374 W 35<sup>th</sup> Street in the city of Los Angeles, CA 90007 for its campus location.

**Property and Equipment**

Property and equipment additions over \$1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

STEM Prep reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

**Net Assets**

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

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



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

**Net Assets Without Donor Restriction - Designated**

Designations of the ending net assets indicated tentative plans for financial resource utilization in a future period. As of June 30, 2019, STEM Prep had \$122,430 in designations related to Prop 39 Clean Energy program funds.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Operating funds for the Charter Elementary School, the Charter Middle School, and the Charter High School (the Charter Schools) are derived principally from state and federal sources. The Charter Schools receive state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter Schools receive federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

**Functional Allocation of Expenses**

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

**Income Taxes**

STEM Prep is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, STEM Prep is not aware of any such actions at this time.

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

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires STEM Prep to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

**Recent Accounting Pronouncements**

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

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- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for STEM Prep for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

**Change in Accounting Principle**

As of July 1, 2018, STEM Prep adopted the provisions of Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for STEM Prep's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from STEM Prep's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess STEM Prep's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. STEM Prep has elected not to present comparative information for these amendments.

STEM Prep has adopted this standard as management believes the standard improves the usefulness and understandability of STEM Prep's financial reporting.

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**Adjustments Resulting from Change in Accounting Policy**

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018, financial statements.

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
<b>STEM Prep</b>			
Unrestricted - designated	\$ 174,004	\$ (174,004)	\$ -
Unrestricted	6,287,145	(6,287,145)	-
Net assets without donor restrictions - Designated	-	174,004	174,004
Net assets without donor restrictions	-	6,287,145	6,287,145
	<u>\$ 6,461,149</u>	<u>\$ -</u>	<u>\$ 6,461,149</u>
<b>LLC</b>			
Unrestricted (deficit)	\$ (571,848)	\$ 571,848	\$ -
Net assets (deficit) without donor restrictions	-	(571,848)	(571,848)
	<u>\$ (571,848)</u>	<u>\$ -</u>	<u>\$ (571,848)</u>

**NOTE 2 – LIQUIDITY AND AVAILABILITY**

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

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th St. LLC	Total
Financial Assets:							
Cash	\$ 88,126	\$ 2,760,302	\$ 847,378	\$ 316,284	\$ 201,149	\$ 74	\$ 4,213,313
Accounts receivable	113	528,529	837,943	460,946	-	3,850	1,831,381
Prepaid and Other current assets	89,492	23,771	64,138	36,368	-	15,156	228,925
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 177,731</u>	<u>\$ 3,312,602</u>	<u>\$ 1,749,459</u>	<u>\$ 813,598</u>	<u>\$ 201,149</u>	<u>\$ 19,080</u>	<u>\$ 6,273,619</u>

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**NOTE 3 - CASH**

Cash at June 30, 2019, consisted of the following:

	Reported Amount						
	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th St. LLC	Bank Balance
Deposits							
Cash on hand and in banks	\$ 88,126	\$ 2,760,302	\$ 847,378	\$ 316,284	\$ 201,149	\$ 74	\$ 4,213,313
						Total	\$ 4,657,355

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). STEM Prep maintains its cash in bank deposit accounts that at times may exceed federally insured limits. STEM Prep has not experienced any losses in such accounts. At June 30, 2019, STEM Prep had \$3,782,282 in excess of FDIC insured limits. Management believes STEM Prep is not exposed to any significant risk related to cash.

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2019, consisted of the following:

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	35th St. LLC	Total
Local Control Funding Formula	\$ -	\$ 99,409	\$ 365,221	\$ 69,788	\$ -	\$ 534,418
Federal receivable	-	113,448	137,729	185,399	-	436,576
Other State receivable	-	265,849	276,538	168,318	-	710,705
Lottery	-	38,897	53,339	31,886	-	124,122
Local source	113	10,926	5,116	5,555	3,850	25,560
Total Accounts Receivable	\$ 113	\$ 528,529	\$ 837,943	\$ 460,946	\$ 3,850	\$ 1,831,381

**NOTE 5 - PREPAID EXPENSES**

Prepaid expenses at June 30, 2019, consisted of the following:

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	35th St. LLC	Elimination	Total
Prepaid rent, insurance and other dues	\$ 89,492	\$ 23,771	\$ 64,138	\$ 36,368	\$ 15,156	\$ (25,932)	\$ 202,993

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**NOTE 6 - LONG TERM RECEIVABLE**

On May 17, 2016, STEM Prep on behalf of Charter High School, entered into a promissory note agreement with Twain Investment Fund 164, LLC in the amount of \$576,626, and bearing an interest rate of 1 percent. From commencement through May 19, 2023, the note is interest only, with payments due monthly. Beginning May 20, 2023, borrower will make payment of principal and interest totaling \$2,098 monthly. All unpaid principal and interest are due and payable on the note maturity date, May 20, 2049.

**NOTE 7 - FIXED ASSETS**

Fixed assets at June 30, 2019, consisted of the following:

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th St. LLC	Total
Land	\$ -	\$ -	\$ -	\$ -	\$ 1,564,000	\$ -	\$ 1,564,000
Leasehold improvements	-	-	48,500	5,291	-	-	53,791
Building	3,165	-	155,125	3,191	11,323,760	2,175,288	13,660,529
Computer equipment	19,148	316,975	126,626	30,006	11,611	-	504,366
Furniture	43,909	1,369	126,864	2,388	-	-	174,530
Work in progress	20,271	-	-	-	-	-	20,271
Subtotal	86,493	318,344	457,115	40,876	12,899,371	2,175,288	15,977,487
Less: accumulated depreciation	(14,660)	(273,722)	(105,023)	(5,719)	(1,575,821)	(99,701)	(2,074,646)
Total Fixed Assets	\$ 71,833	\$ 44,622	\$ 352,092	\$ 35,157	\$ 11,323,550	\$ 2,075,587	\$ 13,902,841

**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2019, consisted of the following:

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adam LLC	35th St. LLC	Total
Salaries and benefits	\$ 5,935	\$ 9,600	\$ 24,550	\$ 4,455	\$ -	\$ 1,767	\$ 46,307
Vendor payables	45,926	132,455	132,088	59,782	43,498	-	413,749
Compensated Absences	16,430	8,337	12,573	4,695	-	-	42,035
Due to grantor	-	1,271	53,376	25,087	-	2,500	82,234
Total Accounts Payable	\$ 68,291	\$ 151,663	\$ 222,587	\$ 94,019	\$ 43,498	\$ 4,267	\$ 584,325

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**NOTE 9 - DEFERRED REVENUE**

Deferred revenue at June 30, 2019, consisted of the following:

	Home Office	35th St. LLC	Elimination	Total
Local sources	\$ 89,400	\$ 25,932	\$ (25,932)	\$ 89,400

**NOTE 10 - LONG-TERM OBLIGATIONS**

**Charter School Revolving Loan Program**

During the 2014-2015 fiscal year, the Charter High School applied for and was accepted into the California School Finance Authority Charter School Revolving Loan program. The Charter High School received a loan in the amount of \$250,000. The loan bears an interest rate of 0.26 percent and will be repaid during the months of September, October, November, December, January and February of each year. The loan is scheduled to be repaid over a period of years and the repayments will be withheld from the apportionment payments due to the Charter High School. As of June 30, 2019, there is no remaining balance.

During the 2018-2019 fiscal year, the Charter Elementary School applied for and was accepted into the California School Finance Authority Charter School Revolving Loan program. The Charter High School received a loan in the amount of \$250,000. The loan bears an interest rate of 2.27 percent and will be repaid during the months of September, October, November, December, January and February of each year. The loan is scheduled to be repaid over a period of years and the repayments will be withheld from the apportionment payments due to the Charter High School. As of June 30, 2019, the remaining balance was \$250,000.

The repayment schedule is as follows:

Repayment Year June 30,	Principal	Interest	Total
2020	\$ 62,500	\$ 5,564	\$ 68,064
2021	62,500	3,960	66,460
2022	62,500	2,549	65,049
2023	62,500	1,126	63,626
Total	\$ 250,000	\$ 13,199	\$ 263,199

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**Facilities Loan**

On November 17, 2014, the Charter High School entered into a loan agreement with Excellent Education Development in the amount of \$600,000. The loan was revised to expire on December 1, 2020, and bears an interest rate of 1.5 percent. On May 12, 2016, the Charter High School applied for an additional loan with Excellent Education Development in the amount of \$600,000 for a total of \$1,200,000. The loan expires on December 1, 2020, and bears an interest rate of 1.5 percent. As of June 30, 2019, the remaining balance was \$497,107.

The repayment schedule is as follows:

Repayment Year	Principal	Interest	Total
June 30,			
2020	\$ 207,627	\$ 6,033	\$ 213,660
2021	289,480	1,843	291,323
Total	<u>\$ 497,107</u>	<u>\$ 7,876</u>	<u>\$ 504,983</u>

**Facilities Loans - Adams LLC**

On May 17, 2016, the Adams LLC entered into a loan agreement with ExED Facilities XV, LLC in the amount of \$3,626,976. The loan expires on May 20, 2023, and bears an interest rate of 4.0655 percent. As of June 30, 2019, the remaining balance was \$3,626,976.

On May 17, 2016, the Adams LLC entered into a loan agreement with ExED Facilities XV, LLC in the amount of \$439,862. The loan expires on May 20, 2049, and bears an interest rate of 4.0655 percent. As of June 30, 2019, the remaining balance was \$439,862.

On May 17, 2016, the Adams LLC entered into a loan agreement with ExED Facilities XV, LLC in the amount of \$282,427. The loan expires on May 20, 2049, and bears an interest rate of 4.0655 percent. As of June 30, 2019, the remaining balance was \$282,427.

On May 17, 2016, the Adams LLC entered into a loan agreement with ExED Facilities XV, LLC in the amount of \$1,814,279. The loan expires on May 20, 2049, and bears an interest rate of 4.0655 percent. As of June 30, 2019, the remaining balance was \$1,814,279.

On May 17, 2016, the Adams LLC entered into a loan agreement with U.S. Bancorp Community Development Corporation, in the amount of \$3,773,475. The loan expires on May 20, 2023, and bears an interest rate of 4.1451 percent. As of June 30, 2019, the remaining balance was \$3,773,475.

On May 17, 2016, the Adams LLC entered into a loan agreement with U.S. Bancorp Community Development Corporation, in the amount of \$457,628. The loan expires on May 20, 2049, and bears an interest rate of 4.1451 percent. As of June 30, 2019, the remaining balance was \$457,628.



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On May 17, 2016, the Adams LLC entered into a loan agreement with U.S. Bancorp Community Development Corporation, in the amount of \$2,022,562. The loan expires on May 20, 2049, and bears an interest rate of 4.1451 percent. As of June 30, 2019, the remaining balance was \$2,022,562.

On May 17, 2016, the Adams LLC entered into a loan agreement with U.S. Bancorp Community Development Corporation, in the amount of \$293,835. The loan expires on May 20, 2049, and bears an interest rate of 4.1451 percent. As of June 30, 2019, the remaining balance was \$293,835.

The repayment schedule is as follows:

Repayment Year June 30,	Principal	Interest	Total
2020	\$ -	\$ 616,356	\$ 616,356
2021	-	616,356	616,356
2022	-	616,356	616,356
2023	7,404,590	604,021	8,008,611
2024	49,926	172,062	221,988
2025-2029	585,215	832,898	1,418,113
2030-2034	898,798	710,882	1,609,680
2035-2039	1,055,641	554,039	1,609,680
2040-2044	1,245,726	363,954	1,609,680
2045-2049	1,471,148	148,709	1,619,857
Total	<u>\$ 12,711,044</u>	<u>\$ 5,235,633</u>	<u>\$ 17,946,677</u>

***NOTE 11 – PROMISSORY NOTE - PACIFIC CHARTER SCHOOL DEVELOPMENT, INC.***

35<sup>th</sup> St., LLC entered into a promissory note with Pacific Charter School Development, Inc. (PCSD) in the amount of \$1,500,000 at an interest rate of 3 percent and matures June 30, 2023. Interest payments begin at the signing of the promissory note from the date of disbursement up to the sixth full month during the construction phase. Monthly installments of principal will begin after the first full month of occupancy of the facility located at 1374 W 35<sup>th</sup> Street. As of June 30, 2019, the remaining balance was \$1,466,790.

The repayment schedule is as follows:

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Repayment Year June 30,	Principal	Interest	Total
2020	\$ 81,414	\$ 42,890	\$ 124,304
2021	83,891	40,414	124,305
2022	86,442	37,862	124,304
2023	89,072	35,233	124,305
2024	91,781	32,524	124,305
2025-2029	502,515	119,009	621,524
2030-2034	531,675	38,053	569,728
Total	<u>\$ 1,466,790</u>	<u>\$ 345,985</u>	<u>\$ 1,812,775</u>

**NOTE 12 - OPERATING LEASE**

The Charter Middle School entered into a one-year lease with Los Angeles Unified School District in which the Charter School would occupy the 24<sup>th</sup> Street Elementary School for the amount of \$262,445. The Charter Middle School paid an additional amount of \$76,950, for the After School Education and Safety Program. The term of this agreement will expire on June 30, 2019.

The Charter High School (Lessee) entered into a lease agreement with PCSD 3200 Adams LLC (Lessor) in which the Charter High School would occupy 3200 West Adams Boulevard, Los Angeles for its campus location. The term of the lease commences on July 1, 2015 and expires June 30, 2020. On May 17, 2016, the lease agreement revised the lessee to STEM Prep and the lessor to 3200 Adams LLC, which purchased the property from PCSD 3200 Adams LLC, along with the terms of the original lease agreement. The term of the revised lease commenced on June 2016 and expires on June 30, 2026. During 2018-2019, the lease expense was \$495,000

Future lease payments are as follows:

Year Ending June 30,	Lease Payments
2020	\$ 495,000
2021	495,000
2022	495,000
2023	527,083
2024	879,996
2025-2026	1,766,927
Total	<u>\$ 4,659,006</u>

STEM Prep (Lessee) entered into a lease agreement with Abundant Life Christian Church (Lessor) in which the Charter Elementary School would occupy 1374 West 35<sup>th</sup> Street, Los Angeles for its campus location. STEM Prep assigned its interest in the 35<sup>th</sup> Street lease to 1374 West 35<sup>th</sup> LLC and STEM Prep entered into a sublease with 1374 West 35<sup>th</sup> LLC, both on May 23, 2018. The term of the lease commences on September 28, 2017, and expires October 1, 2037. During 2018-2019, the lease expense was \$124,328.

Future lease payments are as follows:

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

Year Ending June 30,	Lease Payments
2020	\$ 181,262
2021	181,262
2022	181,262
2023	183,910
2024	185,234
2025-2029	932,922
2030-2034	982,244
2035-2038	702,584
Total	<u>\$ 3,530,680</u>

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer 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 (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

**Contributions**

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and STEM Prep's total contributions were \$1,024,738.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$783,631 (9.828 percent of salaries subject to CalSTRS). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

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***NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY***

STEM Prep is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation insurance and charter school liability insurance. The relationship between STEM Prep and CharterSAFE is such that CharterSAFE is not considered a component unit of the STEM Prep for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and STEM Prep are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019, STEM Prep made payments of \$224,023 to CharterSAFE for services received. At June 30, 2019, STEM Prep had no recorded accounts receivable or accounts payable to CharterSAFE.

***NOTE 15 - CONTINGENCIES***

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

**Litigation**

STEM Prep is not currently a party to any legal proceedings.

***NOTE 16 - SUBSEQUENT EVENTS***

STEM Prep's management has evaluated events or transactions that may occur for potential recognition or disclosure in the combined financial statements through December 9, 2019, which is the date the combined financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.



**SUPPLEMENTARY INFORMATION**

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	\$ 502,654
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	59,242
Title III, Limited English Proficient (LEP) Education Program Funding	84.365	14346	25,530
Title IV, Student Support and Academic Enrichment Special Education: IDEA Basic Local Assistance	84.424	15391	30,618
Entitlement, Part B, Section 611 (Formerly PL 94-142)	84.027	13379	223,342
Title V, Part B, Public Charter Schools Grants	84.282A	14941	446,792
State Charter School Facilities Incentive Grants Program	84.282D	24945	164,020
Total U.S. Department of Education			<u>1,452,198</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	442,827
National School Lunch	10.555	13524	197,797
Total Child Nutrition Cluster			<u>640,624</u>
CACFP Claims - Centers and Family Day Care			24,517
Total U.S. Department of Agriculture			<u>665,141</u>
Total Expenditures of Federal Awards			<u>\$ 2,117,339</u>

See accompanying note to supplementary information.



**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**JUNE 30, 2019**

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**ORGANIZATION**

Crown Preparatory Academy (Charter Number 1187) was granted on May 6, 2010, by the Los Angeles Unified School District and has been renewed for five years through June 30, 2020. Crown Preparatory Academy serves grades five through eight. Math and Science College Preparatory Schools (Charter Number 1412) was granted on February 7, 2012, by the Los Angeles Unified School District and has been renewed for five years through June 30, 2022. Math and Science College Preparatory School serves grades nine through twelve. STEM Preparatory Elementary School (Charter Number 1925) was granted on November 17, 2017, by the Los Angeles Unified School District. STEM Preparatory Elementary School opened in August 2018.

**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Marc Little	Chair	August 1, 2019
Nik Orlando	Vice Chair	August 1, 2019
Andrew Kubasek	Treasurer	August 1, 2019
Carmen Vazquez	Secretary	August 1, 2019
Dale Henry	Member	August 1, 2019
Desmond Lovell	Member	August 1, 2019
Laura McGowan-Robinson	Member	August 1, 2019
Michael Trujillo	Member	August 1, 2019
Mr. Brad Zutaut	Member	August 1, 2019

**ADMINISTRATION**

Emilio Pack	Chief Executive Officer
Eric Barlow	Chief Operating Officer
Janette Rodriguez	Chief Academic Officer
Amy Fulinara	Principal
Lisa Marcelino	Principal
Yvonne Carillo	Principal

See accompanying note to supplementary information.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
<b>Crown Preparatory Academy</b>		
Regular ADA		
Fifth and sixth	220.66	219.20
Seventh and eighth	201.78	200.49
Total Regular ADA	<u>422.44</u>	<u>419.69</u>
Classroom based ADA		
Fifth and sixth	220.50	219.07
Seventh and eighth	201.78	200.32
Total Classroom Based ADA	<u>422.28</u>	<u>419.39</u>
<b>Math and Science College Preparatory School</b>		
Regular ADA		
Ninth through twelfth	514.69	511.81
Total Regular ADA	<u>514.69</u>	<u>511.81</u>
Classroom based ADA		
Ninth through twelfth	513.73	510.91
Total Classroom Based ADA	<u>513.73</u>	<u>510.91</u>
<b>STEM Preparatory Elementary School</b>		
Regular ADA		
Transitional kindergarten through third	138.66	138.85
Total Regular ADA	<u>138.66</u>	<u>138.85</u>
Classroom based ADA		
Transitional kindergarten through third	138.39	138.63
Total Classroom Based ADA	<u>138.39</u>	<u>138.63</u>

The Charter Schools each offered a short-term non-classroom based instruction independent study program.

See accompanying note to supplementary information.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**Crown Preparatory Academy**

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 5 - 6	54,000				
Grade 5		66,180	182	N/A	Complied
Grade 6		66,180	182	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		66,180	182	N/A	Complied
Grade 8		66,180	182	N/A	Complied

**Math and Science College Preparatory School**

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		66,960	182	N/A	Complied
Grade 10		66,960	182	N/A	Complied
Grade 11		66,960	182	N/A	Complied
Grade 12		66,960	182	N/A	Complied

**Stem Preparatory Elementary School**

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	68,800	182	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,680	182	N/A	Complied
Grade 2		54,680	182	N/A	Complied
Grade 3		54,680	182	N/A	Complied

See accompanying note to supplementary information.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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

	<u>Charter Middle School</u>
<b>NET ASSETS</b>	
June 30, 2019, Unaudited Actuals	\$ 3,143,215
Increase in net assets	
Decrease in accounts payable	62,685
June 30, 2019, Audited Financial Statement	<u>\$ 3,205,900</u>

See accompanying note to supplementary information.

**(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2019**

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***NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES***

**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of STEM Prep and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the combined financial statements. STEM Prep has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

**Local Education Agency Organization Structure**

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

**Schedule of Average Daily Attendance**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Charter Schools. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to local education agencies. This schedule provides information regarding the attendance of students.

**Schedule of Instructional Time**

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

The Charter Schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

**Reconciliation of Annual Financial Report With Audited Financial Statements**

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



**INDEPENDENT AUDITOR'S REPORTS**



CPAs & BUSINESS ADVISORS

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

Governing Board  
STEM Preparatory Schools, Inc.  
(A California Nonprofit Public Benefit Corporation)  
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of STEM Preparatory Schools, Inc. (STEM Prep) (A California Nonprofit Public Benefit Corporation), which operates Crown Preparatory Academy (the Charter Middle School), Math and Science College Preparatory School (the Charter High School) STEM Preparatory Elementary School (The Charter Elementary School), 3200 Adams LLC and 1374 W 35<sup>th</sup> Street, LLC (the LLCs) (California Nonprofit Public Benefit Corporations) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered STEM Prep and the LLC'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of STEM Prep and the LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of STEM Prep and the LLC'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 STEM Prep and the LLC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 9, 2019





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board  
STEM Preparatory Schools, Inc.  
(A California Nonprofit Public Benefit Corporation)  
Los Angeles, California

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

We have audited STEM Preparatory Schools, Inc. (STEM Prep) (A California Nonprofit Public Benefit Corporation), which operates Crown Preparatory Academy (the Charter Middle School), Math and Science College Preparatory School (the Charter High School) and STEM Preparatory Elementary School (The Charter Elementary School) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of STEM Prep major federal programs for the year ended June 30, 2019. STEM Prep's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of STEM Prep'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 STEM Prep'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 STEM Prep's compliance.

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

In our opinion, STEM Prep 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, 2019.

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

Management of STEM Prep 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 STEM Prep'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 STEM Prep'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 9, 2019



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
STEM Preparatory Schools, Inc.  
(A California Nonprofit Public Benefit Corporation)  
Los Angeles, California

### **Report on State Compliance**

We have audited STEM Preparatory School's (STEM Prep) (A California Nonprofit Public Benefit Corporation), which operates Crown Preparatory Academy (the Charter Middle School), Math and Science College Preparatory School (the Charter High School), and STEM Preparatory Elementary School (The Charter Elementary School) (The Charter Schools) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Charter Schools' state government programs as noted below for the year ended June 30, 2019.

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

Management is responsible for compliance with the requirements of state laws, regulations, and the terms and conditions of its state awards applicable to its state programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Charter Schools' state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter Schools' 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. Our audit does not provide a legal determination of the Charter Schools' compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, the Charter Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter Schools' compliance with the state laws and regulations applicable to the following items

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	Yes, see below
After School	Yes, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter Schools did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform related procedures.

The Charter Elementary School and the Charter High School did not operate a Before or After school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter Middle School does not operate a Before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter Schools did not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter Middle School does not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
December 9, 2019



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY OF AUDITORS' RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None Reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.



**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**STEM PREPARATORY SCHOOLS, INC.**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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There were no audit findings reported in the prior year.