



Consolidated Financial Statements
June 30, 2020

STEM Preparatory Schools, Inc.
(Operating Crown Preparatory
Academy Charter No. 1187,
Math and Science College
Preparatory School Charter No. 1412,
And STEM Preparatory Elementary
School Charter No. 1925)

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Independent Auditor's Report

Governing Board
STEM Preparatory Schools, Inc.
Los Angeles, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of STEM Preparatory Schools, Inc. (STEM Prep) (a California Nonprofit Public Benefit Corporation), which are comprised of the consolidated statement of financial position as of June 30, 2020, and the related consolidated statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of STEM Prep, as of June 30, 2020, 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

Other information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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* (Uniform Guidance) 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 consolidated financial statements.

The schedule of expenditures of federal awards and the other accompanying supplementary information as listed in the table of contents is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of federal awards and the other accompanying supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2021 on our consideration of STEM Prep's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEM Prep'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 STEM Prep's internal control over financial reporting and compliance.



Rancho Cucamonga, California
March 30, 2021

STEM Preparatory Schools, Inc.
Consolidated Statement of Financial Position
June 30, 2020

Assets		
Current assets		
Cash and cash equivalents	\$	5,251,552
Restricted cash		253,621
Accounts receivable		1,784,148
Prepaid expenses		<u>244,306</u>
Total current assets		<u>7,533,627</u>
Non-current assets		
Long-Term Receivables		576,626
Property and equipment, net		<u>16,085,214</u>
Total non-current assets		<u>16,661,840</u>
Total assets	\$	<u><u>24,195,467</u></u>
Liabilities		
Current liabilities		
Accounts payable	\$	1,077,301
Deferred revenue		27,316
Refundable advance		34,229
Refundable advance - Paycheck Protection Program (PPP)		2,150,102
Current portion of notes payable		114,215
Current portion of revolving loan		<u>62,502</u>
Total current liabilities		<u>3,465,665</u>
Long-term liabilities		
Notes payable, less current portion		14,886,145
Revolving loan, less current portion		<u>124,996</u>
Total long-term liabilities		<u>15,011,141</u>
Total liabilities		<u>18,476,806</u>
Net Assets		
Without donor restrictions		5,570,830
With donor restrictions		<u>147,831</u>
Total net assets		<u>5,718,661</u>
Total liabilities and net assets	\$	<u><u>24,195,467</u></u>

STEM Preparatory Schools, Inc.
Consolidated Statement of Activities
Year Ended June 30, 2020

	<u>Without donor Restrictions</u>	<u>With donor Restrictions</u>	<u>Total</u>
Support and revenues			
Local Control Funding Formula	\$ 13,394,866	\$ -	\$ 13,394,866
Federal revenue	1,545,467	-	1,545,467
Other state revenue	2,550,930	-	2,550,930
Local revenues	614,451	147,831	762,282
	<u>18,105,714</u>	<u>147,831</u>	<u>18,253,545</u>
Total support and revenues			
Expenses			
Program services	14,297,747	-	14,297,747
Management and general	3,702,192	-	3,702,192
	<u>17,999,939</u>	<u>-</u>	<u>17,999,939</u>
Total expenses			
Change in Net Assets	<u>105,775</u>	<u>147,831</u>	<u>253,606</u>
Net Assets, Beginning of Year	<u>5,465,055</u>	<u>-</u>	<u>5,465,055</u>
Net Assets, End of Year	<u>\$ 5,570,830</u>	<u>\$ 147,831</u>	<u>\$ 5,718,661</u>

STEM Preparatory Schools, Inc.
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	\$ 7,671,017	\$ 1,523,424	\$ 9,194,441
Employee benefits	855,519	179,673	1,035,192
Payroll taxes	2,049,068	142,731	2,191,799
Fees for services	562,646	492,005	1,054,651
Advertising and promotions	-	28,707	28,707
Office expenses	-	52,211	52,211
Information technology	-	64,551	64,551
Occupancy	703,402	56,774	760,176
Travel	58,089	-	58,089
Interest	-	561,654	561,654
Depreciation	783,615	-	783,615
Insurance	-	137,594	137,594
Other expenses	120,957	328,920	449,877
Capital outlay	381,045	-	381,045
Special education	186,982	-	186,982
Instructional materials	368,534	-	368,534
Nutrition	556,873	-	556,873
District oversight fees	-	133,948	133,948
	<u>\$ 14,297,747</u>	<u>\$ 3,702,192</u>	<u>\$ 17,999,939</u>
Total functional expenses	<u>\$ 14,297,747</u>	<u>\$ 3,702,192</u>	<u>\$ 17,999,939</u>

STEM Preparatory Schools, Inc.
Consolidated Statement of Cash Flows
Year Ended June 30, 2020

Cash Flows from Operating Activities	
Change in net assets	\$ 253,606
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation expense	783,615
Changes in operating assets and liabilities	
Accounts receivable	47,233
Prepaid expenses	(15,381)
Security deposits	53,505
Accounts payable	492,976
Deferred revenue	(88,016)
Refundable advance	34,229
Refundable advance - PPP	<u>2,150,102</u>
Net Cash from Operating Activities	<u>3,711,869</u>
Cash Flows used for Investing Activities	
Purchases of property and equipment	(2,965,988)
Restricted cash release for use	<u>(253,621)</u>
Net Cash used for Investing Activities	<u>(3,219,609)</u>
Cash Flows from Financing Activities	
Proceeds from issuance of notes	862,928
Principal payments on notes	(537,509)
Principal payments on revolving loan	<u>(62,502)</u>
Net Cash from Financing Activities	<u>262,917</u>
Net Change in Cash and cash equivalent	755,177
Cash and cash equivalent, Beginning of Year	<u>4,496,375</u>
Cash and cash equivalent, End of Year	<u><u>\$ 5,251,552</u></u>
Supplemental Cash Flow Disclosure	
Cash paid during the period in interest	<u><u>\$ 530,333</u></u>

See Notes to Financial Statements

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 2019, for a period of five years ending in 2025.

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 431 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.

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 524 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 opened in August 2018. The Charter Elementary School currently serves 244 students in grades Transitional kindergarten through fourth. 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.

1374 W. 35th St, LLC.

During 2018, 1374 W. 35th St, LLC, (the 35th 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 35th St. LLC, in accordance with the lease agreement.

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 35th 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 corporation 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.

Basis of Accounting

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

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.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

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. Cash and highly liquid financial instruments restricted to building projects or other long-term purposes are excluded from this definition.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. No allowance for doubtful accounts has been established, as STEP Prep deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020, are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the LLCs accounts to each charter school and reimbursement for those resources from each charter school to the LLCs. Operating transfers include certain costs of shared liabilities and shared assets between STEM Prep.

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 35th St. LLC as an investment for the building improvement located at 1374 W 35th 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 property and equipment 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for STEM Prep are derived principally from state and federal sources. STEM Prep receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of STEM Prep's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

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

STEM Prep was granted a \$2,146,750 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. STEM Prep is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. STEM Prep has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan. Proceeds from the loan are eligible for forgiveness if they are used for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. STEM Prep will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of \$2,146,750 in loan and \$3,352 in accrued interest.

Functional Allocation of Expenses

The consolidated financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include occupancy and depreciation, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

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

Management believes that STEM Prep has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. STEM Prep would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

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

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of STEM Prep's mission.

Recent Accounting Pronouncements

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

The ASU is effective for STEM Prep for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for STEM Prep for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

STEM Prep has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists STEM Prep in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, STEM Prep has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on STEM Prep's consolidated financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, *Revenue from Contract with Customers*, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

STEM Prep has adopted this standard as management believes the standard improves the usefulness and understandability of STEM Prep's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

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 consolidated statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 5,251,552
Accounts receivable	<u>1,784,148</u>
Total	<u><u>\$ 7,035,700</u></u>

As part of STEM Prep's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - 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 4 - Property and Equipment

Property and equipment consist of the following at June 30, 2020:

Land	\$	1,564,000
Leasehold improvements		53,791
Building		13,947,387
Computer and equipment		545,990
Furniture		182,820
Work in progress		2,649,487
		18,943,475
Less accumulated depreciation		(2,858,261)
Total	\$	16,085,214

Note 5 - Notes Payable

Low Income Investment Fund

The 35th St. LLC entered into an improvement loan with Low Income Investment Fund for a loan up to \$1,000,000 at an interest rate of 5.92 percent and a 60 months terms including 5 months construction term. During the 2019-2020 fiscal year, \$722,928 was initially drawn down. As of June 30, 2020, the remaining balance was \$722,928.

The repayment schedule is as follows:

Year Ending June 30,		Principal
2021	\$	39,568
2022		36,709
2023		38,974
2024		41,282
2025		566,395
Total	\$	722,928

Pacific Charter School Development, Inc.

35th 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 35th Street. During 2019-2020, the note was revised to include an additional \$140,000 with the same terms as the original amount. As of June 30, 2020, the remaining balance was \$1,566,388.

The repayment schedule is as follows:

Year Ending June 30,	Principal
2021	\$ 74,647
2022	83,697
2023	1,408,044
Total	\$ 1,566,388

Facilities Loan – the Charter High School

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, 2020, there was no remaining balance.

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, 2020, 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, 2020, 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, 2020, 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, 2020, 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, 2020, 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, 2020, the remaining balance was \$457,628.

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, 2020, 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, 2020, the remaining balance was \$293,835.

The repayment schedule is as follows:

Year Ending June 30,	Principal
2021	\$ -
2022	-
2023	7,404,590
2024	49,926
2025	50,429
Thereafter	5,206,099
Total	<u>\$ 12,711,044</u>

Note 6 - Charter School Revolving Loan Program

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 Elementary 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 Elementary School. As of June 30, 2020, the remaining balance was \$187,498.

The repayment schedule is as follows:

Year Ending June 30,	Principal
2021	\$ 62,502
2022	62,502
2023	62,494
Total	<u>\$ 187,498</u>

Note 7 - Operating Lease

The Charter Middle School

The Charter Middle School entered into a lease agreement with Los Angeles Unified School District in which The Charter Middle School will occupy 24th Street Elementary School for its campus location. The term of this agreement expires on June 30, 2020. Lease expense for the fiscal year ending June 30, 2020 was \$235,414, which is included in occupancy in the statement of functional expenses.

The Charter High School

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 2019-2020, the lease expense was \$495,000.

Future lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	\$ 495,000
2022	495,000
2023	527,083
2024	879,996
2025	879,996
Thereafter	886,931
Total	\$ 4,164,006

The Charter Elementary School

STEM Prep (Lessee) entered into a lease agreement with Abundant Life Christian Church (Lessor) in which the Charter Elementary School would occupy 1374 West 35th Street, Los Angeles for its campus location. STEM Prep assigned its interest in the 35th Street lease to 1374 West 35th LLC and STEM Prep entered into a sublease with 1374 West 35th LLC, both on May 23, 2018. The term of the lease commences on September 28, 2017, and expires October 1, 2037. An amendment to the original lease was effective January 1, 2020, for additional space to be occupied. An additional amendment was performed and effective April 1, 2020. During 2019-2020, the lease expense was \$280,085.

Future lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	\$ 455,939
2022	464,834
2023	469,024
2024	469,024
2025	469,024
Thereafter	5,789,070
Total	\$ 8,116,915

Note 8 - Net Assets

Net assets consist of the following at June 30, 2020:

Net assets with donor restrictions	
Subject to expenditure for specified purpose	
Charter Students with Disabilities Grant	<u>\$ 147,831</u>

Note 9 - 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 STEM Prep chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. STEM Prep 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

STEM Prep 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, 2018, 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 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.

STEM Prep 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, 2020, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	17.10%	17.10%
Required employer contribution rate	10.328%	10.328%
Required state contribution rate		

Contributions

Required member, Organization, 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, 2020, are presented above and STEM Prep's total contributions were \$1,116,334.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of STEM Prep. These payments consist of State General Fund contributions to CalSTRS in the amount of \$592,840 (10.328 percent of annual payroll). 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.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of \$1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of \$198,858 in these financial statements.

Note 10 - 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.

Note 11 - 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 March 30, 2021, which is the date the consolidated 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.

Subsequent to year-end, STEM Prep has been negatively impacted by the effects of the world-wide coronavirus pandemic. STEM Prep is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to STEM Prep's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

During September 2020, the 35th St. LLC drew an additional 227,356 from the Low Income Investment Fund loan for a total of \$950,284 draw from the up to \$1,000,00 available to be drawn.



Supplementary Information
June 30, 2020

STEM Preparatory Schools, Inc.

STEM Preparatory Schools, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed through California Department of Education (CDE)			
Title V, Part B, Public Charter Schools Grants	84.282A	14941	\$ 9,160
State Charter School Facilities Incentive Grant Program	84.282D	[1]	<u>171,424</u>
Subtotal			<u>180,584</u>
Special Education Cluster			
Basic Local Assistance Entitlement	84.027	13379	234,620
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	524,316
Title II, Part A, Supporting Effective Instruction	84.367	14341	60,659
Title III, English Learner Student Program	84.365	14346	26,246
Title IV, Part A, Student Support and Academic Enrichment	84.424	15396	<u>43,021</u>
Total U.S. Department of Education			<u>1,069,446</u>
U.S. Department of Agriculture			
Passed through CDE			
Child Nutrition Cluster			
Basic School Breakfast Program	10.553	13390	4,609
Especially Needy Breakfast	10.553	13526	175,657
National School Lunch Program	10.555	13524	263,726
Summer Food Service Program	10.559	13004	<u>8,466</u>
Total Child Nutrition Cluster			<u>452,458</u>
Child And Adult Care food Program	10.558	13393	<u>23,563</u>
Total Federal Programs			<u>\$ 1,545,467</u>

[1] Pass-Through Entity Identifying Number not available.

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, 2025. 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. Stem Preparatory Elementary School serves grades transitional kindergarten through fourth.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mr. Marc Little	Chair	November 2020
Nik Orlando	Vice Chair	November 2020
Andrew Kubasek	Treasurer	November 2020
Carmen Vazquez	Secretary	November 2020
Dale Henry	Member	November 2020
Desmond Lovell	Member	November 2020
Laura McGowan-Robinson	Member	September 2020
Michael Trujillo	Member	November 2020
Mr. Brad Zutaut	Member	November 2020

ADMINISTRATION

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

STEM Preparatory Schools, Inc.
Schedule of Average Daily Attendance
Year Ended June 30, 2020

Crown Preparatory Academy

	Second Period Report 7A32B3EB	Annual Report 570BDA2E
Regular ADA		
Fifth and sixth	197.39	197.39
Seventh and eighth	213.29	213.29
Total Regular ADA	410.68	410.68
Classroom Based ADA		
Fifth and sixth	197.30	197.30
Seventh and eighth	213.11	213.11
Total Classroom Based ADA	410.41	410.41

Math and Science College Preparatory School

	Second Period Report D085A57D	Annual Report 934ADEE1
Regular ADA		
Ninth through twelfth	500.88	500.88
Classroom Based ADA		
Ninth through twelfth	500.80	500.80

Crown Preparatory Academy and Math and Science College Preparatory School each offered a short-term non-classroom based instruction independent study program.

STEM Preparatory Schools, Inc.
Schedule of Average Daily Attendance
Year Ended June 30, 2020

Stem Preparatory Elementary School

	Second Period Report F5AF073B	Annual Report BDD94E0F
Regular ADA		
Transitional kindergarten through third	205.66	205.66
Fourth	24.48	24.48
Total Regular ADA	230.14	230.14
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.36	0.36
Total Regular ADA	230.50	230.50
Classroom Based ADA		
Transitional kindergarten through third	205.66	205.66
Fourth	24.48	24.48
Total Regular ADA	230.14	230.14
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.36	0.36
Total Classroom Based ADA	230.50	230.50

Stem Preparatory Elementary School did not offer short-term non-classroom based instruction independent study program.

STEM Preparatory Schools, Inc.

Schedule of Instructional Time

Year Ended June 30, 2020

Crown Preparatory Academy

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 5 - 8	54,000				
Grade 5		62,941	180	N/A	Complied
Grade 6		62,941	180	N/A	Complied
Grade 7		62,941	180	N/A	Complied
Grade 8		62,941	180	N/A	Complied

Math and Science College Preparatory School

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		66,800	180	N/A	Complied
Grade 10		66,800	180	N/A	Complied
Grade 11		66,800	180	N/A	Complied
Grade 12		66,800	180	N/A	Complied

Stem Preparatory Elementary School

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	58,030	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		58,030	180	N/A	Complied
Grade 2		58,030	180	N/A	Complied
Grade 3		58,030	180	N/A	Complied
Grade 4	54,000	58,030	180	N/A	Complied

STEM Preparatory Schools, Inc
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements of the charter schools at June 30, 2020.

STEM Preparatory Schools, Inc.
Consolidating Statement of Financial Position
Year Ended June 30, 2020

	Home Office	Charter Middle School	Charter High School	Charter Elementary School
Assets				
Current assets				
Deposits and investments	\$ 2,512,197	\$ 1,203,773	\$ 858,129	\$ 390,893
Restricted cash	-	-	-	-
Receivables	8,448	685,478	611,246	463,617
Intercompany receivables	-	-	123,819	-
Prepaid expenditures and other assets	36,534	38,069	86,440	61,390
Total current assets	<u>2,557,179</u>	<u>1,927,320</u>	<u>1,679,634</u>	<u>915,900</u>
Non-current assets				
Capital contribution	-	-	535,433	310,082
Long-Term Receivables	-	-	576,626	-
Property and equipment, net	64,696	1,776,852	545,396	115,049
Total non-current assets	<u>64,696</u>	<u>1,776,852</u>	<u>1,657,455</u>	<u>425,131</u>
Total assets	<u><u>\$ 2,621,875</u></u>	<u><u>\$ 3,704,172</u></u>	<u><u>\$ 3,337,089</u></u>	<u><u>\$ 1,341,031</u></u>
Liabilities				
Current liabilities				
Accounts payable	\$ 239,205	\$ 329,066	\$ 234,695	\$ 96,097
Intercompany payables	-	-	-	-
Deferred revenue	-	-	-	-
Refundable advance	-	34,229	-	-
Refundable advance - Paycheck Protection Program (PPP)	2,150,102	-	-	-
Current portion of notes payable	-	-	-	-
Current portion of revolving loan	-	-	-	62,502
Total current liabilities	<u>2,389,307</u>	<u>363,295</u>	<u>234,695</u>	<u>158,599</u>
Long-term liabilities				
Notes payable, less current portion	-	-	-	-
Revolving loan, less current portion	-	-	-	124,996
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,996</u>
Total liabilities	<u>2,389,307</u>	<u>363,295</u>	<u>234,695</u>	<u>283,595</u>
Net Assets				
Net assets without donor restriction	84,737	3,340,877	3,102,394	1,057,436
Net assets with donor restriction	147,831	-	-	-
Total net assets	<u>232,568</u>	<u>3,340,877</u>	<u>3,102,394</u>	<u>1,057,436</u>
Total liabilities and net assets	<u><u>\$ 2,621,875</u></u>	<u><u>\$ 3,704,172</u></u>	<u><u>\$ 3,337,089</u></u>	<u><u>\$ 1,341,031</u></u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Financial Position
Year Ended June 30, 2020

	Adam LLC	35th St LLC	Elimination	Total
Assets				
Current assets				
Deposits and investments	\$ 163,395	\$ 123,165	\$ -	\$ 5,251,552
Restricted cash	253,621	-	-	253,621
Receivables	-	15,359	-	1,784,148
Intercompany receivables	10,775	-	(134,594)	-
Prepaid expenditures and other assets	-	21,873	-	244,306
Total current assets	<u>427,791</u>	<u>160,397</u>	<u>(134,594)</u>	<u>7,533,627</u>
Non-current assets				
Capital contribution	-	-	(845,515)	-
Long-Term Receivables	-	-	-	576,626
Property and equipment, net	10,755,040	2,828,181	-	16,085,214
Total non-current assets	<u>10,755,040</u>	<u>2,828,181</u>	<u>(845,515)</u>	<u>16,661,840</u>
Total assets	<u><u>\$ 11,182,831</u></u>	<u><u>\$ 2,988,578</u></u>	<u><u>\$ (980,109)</u></u>	<u><u>\$ 24,195,467</u></u>
Liabilities				
Current liabilities				
Accounts payable	\$ 48,508	\$ 129,730	\$ -	\$ 1,077,301
Intercompany payables	123,819	10,775	(134,594)	-
Deferred revenue	-	27,316	-	27,316
Refundable advance	-	-	-	34,229
Refundable advance - Paycheck Protection Program (PPP)	-	-	-	2,150,102
Current portion of notes payable	-	114,215	-	114,215
Current portion of revolving loan	-	-	-	62,502
Total current liabilities	<u>172,327</u>	<u>282,036</u>	<u>(134,594)</u>	<u>3,465,665</u>
Long-term liabilities				
Notes payable, less current portion	12,711,044	2,175,101	-	14,886,145
Revolving loan, less current portion	-	-	-	124,996
Total long-term liabilities	<u>12,711,044</u>	<u>2,175,101</u>	<u>-</u>	<u>15,011,141</u>
Total liabilities	<u>12,883,371</u>	<u>2,457,137</u>	<u>(134,594)</u>	<u>18,476,806</u>
Net Assets				
Net assets without donor restriction	(1,700,540)	531,441	(845,515)	5,570,830
Net assets with donor restriction	-	-	-	147,831
Total net assets	<u>(1,700,540)</u>	<u>531,441</u>	<u>(845,515)</u>	<u>5,718,661</u>
Total liabilities and net assets	<u><u>\$ 11,182,831</u></u>	<u><u>\$ 2,988,578</u></u>	<u><u>\$ (980,109)</u></u>	<u><u>\$ 24,195,467</u></u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Activities
Year Ended June 30, 2020

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th St. LLC	Elimination	Total
Support and revenues								
Local Control Funding Formula	\$ -	\$ 4,387,224	\$ 6,417,431	\$ 2,590,211	\$ -	\$ -	\$ -	\$ 13,394,866
Federal revenue	-	684,514	517,370	343,583	-	-	-	1,545,467
Other State revenue	-	875,473	1,176,361	499,096	-	-	-	2,550,930
Local revenue	2,556,140	50,984	80,097	309,088	495,000	280,087	(3,156,945)	614,451
Total support and revenue	2,556,140	5,998,195	8,191,259	3,741,978	495,000	280,087	(3,156,945)	18,105,714
Expenditures								
Program services	1,115,027	4,880,365	6,149,860	2,983,656	568,510	320,664	(1,720,335)	14,297,747
Management and general	1,448,249	982,853	1,590,954	534,431	554,155	28,160	(1,436,610)	3,702,192
Total expenses	2,563,276	5,863,218	7,740,814	3,518,087	1,122,665	348,824	(3,156,945)	17,999,939
Change in Net Assets Without Donor Restriction	(7,136)	134,977	450,445	223,891	(627,665)	(68,737)	-	105,775
Net Assets Without Donor Restriction Contributions and grants	147,831	-	-	-	-	-	-	147,831
Change in Net Assets	140,695	134,977	450,445	223,891	(627,665)	(68,737)	-	253,606
Net Assets, Beginning of Year	91,873	3,205,900	2,651,949	833,545	(1,072,875)	600,178	(845,515)	5,465,055
Net Assets, End of Year	\$ 232,568	\$ 3,340,877	\$ 3,102,394	\$ 1,057,436	\$ (1,700,540)	\$ 531,441	\$ (845,515)	\$ 5,718,661

See Notes to Supplementary Information

STEM Preparatory Schools, Inc.
Consolidating Statement of Functional Expenses
Year Ended June 30, 2020

	Home Office			Charter Middle School		
	Program Services	Management and General	Subtotal	Program Services	Management and General	Subtotal
Salaries	\$ 721,471	\$ 729,970	\$ 1,451,441	\$ 2,482,616	\$ 198,981	\$ 2,681,597
Employee benefits	71,241	83,751	154,992	298,242	25,080	323,322
Payroll taxes	126,516	83,271	209,787	767,910	15,534	783,444
Fees for services	21,747	422,435	444,182	208,940	9,898	218,838
Advertising and promotions	-	5,298	5,298	-	15,902	15,902
Office expenses	-	2,973	2,973	-	20,937	20,937
Information technology	-	45,664	45,664	-	6,418	6,418
Occupancy	1,640	1,660	3,300	220,419	17,667	238,086
Travel	38,057	-	38,057	5,067	-	5,067
Interest	-	3,352	3,352	-	-	-
Depreciation	10,739	-	10,739	24,305	-	24,305
Insurance	-	14,999	14,999	-	31,748	31,748
Other expenses	4,491	54,876	59,367	449,439	596,816	1,046,255
Capital outlay	115,003	-	115,003	92,678	-	92,678
Special education	-	-	-	67,238	-	67,238
Instructional materials	4,122	-	4,122	89,182	-	89,182
Nutrition	-	-	-	174,329	-	174,329
District oversight fee	-	-	-	-	43,872	43,872
	<u>\$ 1,115,027</u>	<u>\$ 1,448,249</u>	<u>\$ 2,563,276</u>	<u>\$ 4,880,365</u>	<u>\$ 982,853</u>	<u>\$ 5,863,218</u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Functional Expenses
Year Ended June 30, 2020

	Charter High School			Charter Elementary School		
	Program Services	Management and General	Subtotal	Program Services	Management and General	Subtotal
Salaries	\$ 2,987,603	\$ 376,806	\$ 3,364,409	\$ 1,479,327	\$ 217,667	\$ 1,696,994
Employee benefits	354,181	49,501	403,682	131,855	21,341	153,196
Payroll taxes	840,528	27,472	868,000	314,114	16,454	330,568
Fees for services	207,020	24,661	231,681	124,939	1,011	125,950
Advertising and promotions	-	4,000	4,000	-	3,507	3,507
Office expenses	-	16,275	16,275	-	12,026	12,026
Information technology	-	9,229	9,229	-	3,240	3,240
Occupancy	571,639	72,097	643,736	382,030	56,211	438,241
Travel	13,374	-	13,374	1,591	-	1,591
Interest	-	5,774	5,774	-	2,580	2,580
Depreciation	61,140	-	61,140	10,157	-	10,157
Insurance	-	65,522	65,522	-	21,192	21,192
Other expenses	628,251	875,443	1,503,694	74,885	153,300	228,185
Capital outlay	74,543	-	74,543	98,821	-	98,821
Special education	82,006	-	82,006	37,738	-	37,738
Instructional materials	160,038	-	160,038	115,192	-	115,192
Nutrition	169,537	-	169,537	213,007	-	213,007
District oversight fee	-	64,174	64,174	-	25,902	25,902
	<u>\$ 6,149,860</u>	<u>\$ 1,590,954</u>	<u>\$ 7,740,814</u>	<u>\$ 2,983,656</u>	<u>\$ 534,431</u>	<u>\$ 3,518,087</u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Functional Expenses
Year Ended June 30, 2020

	Adam LLC			35st LLC			Elimination	Total
	Program Services	Management and General	Subtotal	Program Services	Management and General	Subtotal		
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,194,441
Employee benefits	-	-	-	-	-	-	-	1,035,192
Payroll taxes	-	-	-	-	-	-	-	2,191,799
Fees for services	-	34,000	34,000	-	-	-	-	1,054,651
Advertising and promotions	-	-	-	-	-	-	-	28,707
Office expenses	-	-	-	-	-	-	-	52,211
Information technology	-	-	-	-	-	-	-	64,551
Occupancy	-	-	-	211,900	-	211,900	(775,087)	760,176
Travel	-	-	-	-	-	-	-	58,089
Interest	-	521,979	521,979	-	27,969	27,969	-	561,654
Depreciation	568,510	-	568,510	108,764	-	108,764	-	783,615
Insurance	-	4,133	4,133	-	-	-	-	137,594
Other expenses	-	(5,957)	(5,957)	-	191	191	(2,381,858)	449,877
Capital outlay	-	-	-	-	-	-	-	381,045
Special education	-	-	-	-	-	-	-	186,982
Instructional materials	-	-	-	-	-	-	-	368,534
Nutrition	-	-	-	-	-	-	-	556,873
District oversight fee	-	-	-	-	-	-	-	133,948
	<u>\$ 568,510</u>	<u>\$ 554,155</u>	<u>\$ 1,122,665</u>	<u>\$ 320,664</u>	<u>\$ 28,160</u>	<u>\$ 348,824</u>	<u>\$ (3,156,945)</u>	<u>\$ 17,999,939</u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Cash Flows
Year Ended June 30, 2020

	Home Office	Charter Middle School	Charter High School
Cash Flows from (used for) Operating Activities			
Change in net assets	\$ 140,695	\$ 134,977	\$ 450,445
Adjustments to reconcile change in net assets to net cash from (used for) operating activities			
Depreciation expense	10,739	24,305	61,140
Changes in operating assets and liabilities			
Accounts receivable	(8,335)	(156,949)	226,697
Prepaid expenses	52,958	(14,298)	(22,302)
Intercompany receivables	-	-	2,275
Security deposits	-	339	31,939
Accounts payable	170,914	177,403	12,108
Deferred revenue	(89,400)	-	-
Intercompany payable	-	-	-
Refundable advance	-	34,229	-
Refundable advance - PPP	2,150,102	-	-
Net Cash from (used for) Operating Activities	<u>2,427,673</u>	<u>200,006</u>	<u>762,302</u>
Cash Flows used for Investing Activities			
Capital expenditures	(3,602)	(1,756,535)	(254,444)
Restricted cash release for use	-	-	-
Net Cash used for Investing Activities	<u>(3,602)</u>	<u>(1,756,535)</u>	<u>(254,444)</u>
Cash Flows from (used for) Financing Activities			
Proceeds from issuance of notes	-	-	-
Principal payments on notes	-	-	(497,107)
Principal payments on revolving loan	-	-	-
Net Cash from (used for) Financing Activities	<u>-</u>	<u>-</u>	<u>(497,107)</u>
Net Change in Cash and cash equivalent	2,424,071	(1,556,529)	10,751
Cash and cash equivalent, Beginning of Year	<u>88,126</u>	<u>2,760,302</u>	<u>847,378</u>
Cash and cash equivalent, End of Year	<u>\$ 2,512,197</u>	<u>\$ 1,203,773</u>	<u>\$ 858,129</u>
Supplemental Cash Flow Disclosure			
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,774</u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Cash Flows
Year Ended June 30, 2020

	Charter Elementary School	Adams LLC	35th St. LLC
Cash Flows from (used for) Operating Activities			
Change in net assets	\$ 223,891	\$ (627,665)	\$ (68,737)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities			
Depreciation expense	10,157	568,510	108,764
Changes in operating assets and liabilities			
Accounts receivable	(2,671)	-	(11,509)
Prepaid expenses	(25,022)	-	(6,717)
Intercompany receivables	-	(10,775)	-
Security deposits	18,727	-	2,500
Accounts payable	2,078	5,010	125,463
Deferred revenue	-	-	1,384
Intercompany payable	-	(2,275)	10,775
Refundable advance	-	-	-
Refundable advance - PPP	-	-	-
Net Cash from (used for) Operating Activities	<u>227,160</u>	<u>(67,195)</u>	<u>161,923</u>
Cash Flows used for Investing Activities			
Capital expenditures	(90,049)	-	(861,358)
Restricted cash release for use	-	(253,621)	-
Net Cash used for Investing Activities	<u>(90,049)</u>	<u>(253,621)</u>	<u>(861,358)</u>
Cash Flows from (used for) Financing Activities			
Proceeds from issuance of notes	-	-	862,928
Principal payments on notes	-	-	(40,402)
Principal payments on revolving loan	(62,502)	-	-
Net Cash from (used for) Financing Activities	<u>(62,502)</u>	<u>-</u>	<u>822,526</u>
Net Change in Cash and cash equivalent	74,609	(320,816)	123,091
Cash and cash equivalent, Beginning of Year	<u>316,284</u>	<u>484,211</u>	<u>74</u>
Cash and cash equivalent, End of Year	<u>\$ 390,893</u>	<u>\$ 163,395</u>	<u>\$ 123,165</u>
Supplemental Cash Flow Disclosure			
Cash paid during the period for interest	<u>\$ 2,580</u>	<u>\$ -</u>	<u>\$ 521,979</u>

STEM Preparatory Schools, Inc.
Consolidating Statement of Cash Flows
Year Ended June 30, 2020

	Elimination	Total
Cash Flows from (used for) Operating Activities		
Change in net assets	\$ -	\$ 253,606
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation expense	-	783,615
Changes in operating assets and liabilities		
Accounts receivable	-	47,233
Prepaid expenses	-	(15,381)
Intercompany receivables	8,500	-
Security deposits	-	53,505
Accounts payable	-	492,976
Deferred revenue	-	(88,016)
Intercompany payable	(8,500)	-
Refundable advance	-	34,229
Refundable advance - PPP	-	2,150,102
	-	3,711,869
Net Cash from (used for) Operating Activities	-	3,711,869
Cash Flows used for Investing Activities		
Capital expenditures	-	(2,965,988)
Restricted cash release for use	-	(253,621)
	-	(3,219,609)
Net Cash used for Investing Activities	-	(3,219,609)
Cash Flows from (used for) Financing Activities		
Proceeds from issuance of notes	-	862,928
Principal payments on notes	-	(537,509)
Principal payments on revolving loan	-	(62,502)
	-	262,917
Net Cash from (used for) Financing Activities	-	262,917
Net Change in Cash and cash equivalent	-	755,177
Cash and cash equivalent, Beginning of Year	-	4,496,375
Cash and cash equivalent, End of Year	\$ -	\$ 5,251,552
Supplemental Cash Flow Disclosure		
Cash paid during the period for interest	\$ -	\$ 530,333

Note 1 - Purpose of Supplementary Schedules

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of STEM Prep under programs of the federal government for the year ended June 30, 2020. The information 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). Because the schedule presents only a selected portion of the operations of STEM Prep, it is not intended to and does not present the financial position, changes in net assets, or cash flows of STEM Prep.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate

STEM Prep has not elected to use the ten percent de minimis cost rate.

Local Education Agency Organization Structure

This schedule provides information about STEM Prep's operations, 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 STEM Prep. 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 at STEM Prep.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, STEM Prep filed the COVID-19 School Closure Certification certifying that schools were closed for 52 days due to the pandemic. As a result, STEM Prep received credit for these 52 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements for the charter schools.

Consolidating Statements

The accompanying consolidating financial statements report the individual programs of STEM Prep and the Holding Corp are presented on the accrual basis of accounting. Eliminating entries in the consolidated financial statements are due to activities between STEM Prep and the Holding Corp.



Independent Auditor's Reports
June 30, 2020

STEM Preparatory Schools, Inc.



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.
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 consolidated financial statements of STEM Preparatory Schools, Inc. (STEM Prep) which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statement of activities, consolidated functional expenses, and consolidated cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the STEM Prep'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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of STEM Prep's internal control. Accordingly, we do not express an opinion on the effectiveness of STEM Prep'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's 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 STEM Prep's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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
March 30, 2021



Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
STEM Preparatory Schools, Inc.
Los Angeles, California

Report on Compliance for the Major Federal Program

We have audited STEM Preparatory Schools, Inc.'s (STEM Prep) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on STEM Prep's major federal program for the year ended June 30, 2020. STEM Prep's major Federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for STEM Prep's major federal program 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 the major Federal program. However, our audit does not provide a legal determination of STEM Prep's compliance.

Opinion on the 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 its major federal program for the year ended June 30, 2020.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Preparatory Schools, Inc.'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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the printed name and date.

Rancho Cucamonga, California
March 30, 2021



Independent Auditor's Report on State Compliance

Governing Board
STEM Preparatory Schools, Inc.
Los Angeles, California

Report on State Compliance

We have audited STEM Preparatory Schools, Inc.'s (STEM Prep) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on STEM Prep's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has 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 state compliance. However, our audit does not provide a legal determination of STEM Prep's compliance.

Compliance Requirements Tested

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	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
CHARTER SCHOOLS	
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.

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

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 offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

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

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because STEM Prep is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program for the Charter Middle School as this school did not receive funding for this program.

Unmodified Opinion

In our opinion, STEM Prep complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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

March 30, 2021

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major program:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.553, 10.555, 10.559
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified
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None reported.

None reported.

None reported.

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