

**STEM PREPARATORY SCHOOLS, INC.  
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2021**

**OPERATING CHARTER SCHOOLS:  
CROWN PREPARATORY ACADEMY - #1187  
MATH AND SCIENCE COLLEGE PREPARATORY SCHOOL - #1412  
STEM PREPARATORY ELEMENTARY SCHOOL - #1925**



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

**CLAconnect.com**

**STEM PREPARATORY SCHOOLS, INC.  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2021**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>3</b>
<b>CONSOLIDATED STATEMENT OF ACTIVITIES</b>	<b>4</b>
<b>CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES</b>	<b>5</b>
<b>CONSOLIDATED STATEMENT OF CASH FLOWS</b>	<b>6</b>
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>7</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	<b>22</b>
<b>LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE</b>	<b>23</b>
<b>SCHEDULE OF INSTRUCTIONAL TIME</b>	<b>24</b>
<b>RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED         FINANCIAL STATEMENTS</b>	<b>25</b>
<b>CONSOLIDATING STATEMENT OF FINANCIAL POSITION</b>	<b>26</b>
<b>CONSOLIDATING STATEMENT OF ACTIVITIES</b>	<b>27</b>
<b>CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES</b>	<b>28</b>
<b>CONSOLIDATING STATEMENT OF CASH FLOWS</b>	<b>31</b>
<b>NOTES TO SUPPLEMENTARY INFORMATION</b>	<b>32</b>
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>34</b>
<b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</b>	<b>36</b>
<b>INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE</b>	<b>38</b>
<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</b>	<b>40</b>
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	<b>42</b>



## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying consolidated financial statements of STEM Preparatory Schools, Inc. (STEM Prep), a California nonprofit public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to on page one present fairly, in all material respects, the financial position of STEM Prep as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on STEM Prep’s consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the supplementary schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 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 on 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.



**CliftonLarsonAllen LLP**

Glendora, California  
December 21, 2021

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2021**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 6,475,982
Restricted Cash and Cash Equivalents	253,198
Accounts Receivable	4,677,207
Prepaid Expenses and Other Assets	235,816
Total Current Assets	11,642,203

**NONCURRENT ASSETS**

Long-Term Receivables	576,262
Property and Equipment, Net	15,524,399
Total Noncurrent Assets	16,100,661

Total Assets	\$ 27,742,864
--------------	---------------

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Liabilities	\$ 619,881
Deferred Revenue	1,063,681
Current Portion of Notes Payable	100,455
Current Portion of Revolving Loan	62,502
Total Current Liabilities	1,846,519

**LONG-TERM LIABILITIES**

Notes Payable, Less Current Portion	15,110,362
Revolving Loan, Less Current Portion	62,494
Total Long-Term Liabilities	15,172,856
Total Liabilities	17,019,375

**NET ASSETS**

Without Donor Restrictions	10,206,651
With Donor Restrictions	516,838
Total Net Assets	10,723,489

Total Liabilities and Net Assets	\$ 27,742,864
----------------------------------	---------------

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES</b>			
State Revenue:			
Local Control Funding Formula	\$ 14,124,945	\$ -	\$ 14,124,945
Other State Revenue	2,300,260	41,351	2,341,611
Federal Revenue:			
Grants and Entitlements	2,686,859	-	2,686,859
Local Revenue:			
Contributions	473,475	475,487	948,962
Interest Income	6,243	-	6,243
Other Revenue	2,197,891	-	2,197,891
Net Assets Released from Restrictions	147,831	(147,831)	-
Total Revenues	21,937,504	369,007	22,306,511
<b>EXPENSES</b>			
Program Services	13,483,205	-	13,483,205
Management and General	3,818,461	-	3,818,461
Fundraising	17	-	17
Total Expenses	17,301,683	-	17,301,683
<b>CHANGE IN NET ASSETS</b>	4,635,821	369,007	5,004,828
Net Assets - Beginning of Year	5,570,830	147,831	5,718,661
<b>NET ASSETS - END OF YEAR</b>	\$ 10,206,651	\$ 516,838	\$ 10,723,489

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2021**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 7,751,388	\$ 1,584,949	\$ -	\$ 9,336,337
Pension Expense	1,068,576	44,677	-	1,113,253
Other Employee Benefits	770,962	138,332	-	909,294
Payroll Taxes	178,142	101,805	-	279,947
Legal Expenses	-	49,917	-	49,917
Accounting Expenses	-	23,278	-	23,278
Other Fees for Services	573,209	471,618	-	1,044,827
Advertising and Promotions	-	39,203	-	39,203
Office Expenses	469,910	318,969	-	788,879
Information Technology	-	88,079	-	88,079
Occupancy	576,252	29,744	-	605,996
Travel	21,742	-	-	21,742
Interest	-	621,037	-	621,037
Depreciation	827,507	-	-	827,507
Insurance	-	200,865	-	200,865
Other Expenses	715,916	105,988	17	821,921
Instructional Materials	388,353	-	-	388,353
District Oversight Fees	141,248	-	-	141,248
Total Functional Expenses	<u>\$ 13,483,205</u>	<u>\$ 3,818,461</u>	<u>\$ 17</u>	<u>\$ 17,301,683</u>

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2021**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 5,004,828
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation Expense	827,507
Change in Operating Assets:	
Accounts Receivable	(2,893,059)
Prepaid Expenses	8,854
Change in Operating Liabilities:	
Accounts Payable and Accrued Liabilities	(457,420)
Deferred Revenue	1,036,365
Refundable Advance	(34,229)
Refundable Advance - PPP	(2,150,102)
Net Cash Provided by Operating Activities	<u>1,342,744</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of Property and Equipment	<u>(266,692)</u>
Net Cash Used by Investing Activities	(266,692)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from Issuance of Notes Payable	327,356
Principal Payments on Notes	(116,899)
Principal Payments on Revolving Loan	<u>(62,502)</u>
Net Cash Provided by Financing Activities	<u>147,955</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	1,224,007
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>5,505,173</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR</b>	<u><u>\$ 6,729,180</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>	
Cash Paid for Interest	<u><u>\$ 624,389</u></u>
<b>RECONCILIATION TO STATEMENT OF FINANCIAL POSITION</b>	
Cash and Cash Equivalents	\$ 6,475,982
Restricted Cash and Cash Equivalents	253,198
Total Cash and Cash Equivalents	<u><u>\$ 6,729,180</u></u>

See accompanying Notes to Financial Statements.



**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

STEM Preparatory Schools, Inc. (STEM Prep) previously known as Crown Preparatory Academy, Inc., was formed in 2008 as a California nonprofit 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 consolidating 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 445 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.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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 located at 3200 West Adams Boulevard, Los Angeles, California 90018 and first opened on August 8, 2013. The Charter High School currently serves 528 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 312 students in grades Transitional kindergarten through fifth. 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 Code (IRC) 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 IRC Section 501(c)(3). The Charter High School makes lease payments to the Adams, LLC, in accordance with the lease agreement.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Other Related Entities (Continued)**

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 IRC 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 STEM Prep has both control and an economic interest in the LLCs. All significant intracompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as STEM Prep.

**Basis of Accounting**

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

**Basis of Presentation**

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

**Use of Estimates**

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

**Net Assets**

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

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

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Net Assets (Continued)**

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

**Accounts Receivable 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, 2021, 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.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**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 is 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, 2021.

**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.

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 recorded the loan and any accrued interest as a refundable advance and in June 2021 received a notice from the SBA that the entire loan amount and accrued interest was forgiven. During the year ended June 30, 2021 STEM Prep recognized \$2,146,750 in other revenue in the consolidated statement of activities related to this agreement. The SBA may review funding eligibility and usage of funds for compliance with program requirements based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty, however, management is of the opinion that any review will not have a material adverse impact on STEM Prep's financial position.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Contributions**

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

**Conditional Grants**

Grants and contracts that are conditioned upon the performance of certain requirements or the incurrence of allowable qualifying expenses (barriers) are recognized as revenues in the period in which the conditions are met. Amounts received are recognized as revenue when STEM Prep has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenues in the consolidated statement of financial position. As of June 30, 2021, STEM Prep has conditional grants of \$7,822,090 of which \$1,063,681 is recognized as deferred revenue in the consolidated statement of financial position.

**Functional Allocation of Expenses**

Costs of providing STEM Prep's programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The expenses that are allocated include salaries, pension expense, other employee benefits, payroll taxes, and occupancy 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 IRC 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.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

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

**Income Taxes (Continued)**

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.

**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.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are recognized as a liability of STEM Prep. The entire compensated absences liability is reported on the consolidated statement of financial position. Full-time employees accrue paid vacation based on rates as stated in the employee handbook. A maximum of 16 days of vacation may be accrued.

**Change in Accounting Principle**

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenues from Contracts with Customers (Topic 606)*. The update establishes the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. STEM Prep has early adopted the implementation of ASU 2014-09 under the full retrospective approach. There was no material impact on STEM Prep's financial position and results of operations upon adoption of the new standard.

In November 2016, FASB issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. The update requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalent and the amounts generally described as restricted cash or restricted cash equivalents. STEM Prep has implemented ASU 2016-18 under the full retrospective approach. The impact resulted in an increase in cash and cash equivalents and the addition of a reconciliation of cash the statement of cash flows.

**Evaluation of Subsequent Events**

STEM Prep has evaluated subsequent events through December 21, 2021, the date these consolidated financial statements were available to be issued.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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	\$ 6,475,982
Accounts Receivable	4,677,207
Less: Net Assets With Donor Restrictions	<u>(516,838)</u>
Total	<u><u>\$ 10,636,351</u></u>

As part of its liquidity management plan, STEM Prep monitors liquidity required and cash flows to meet operating needs on a monthly basis. STEM Prep structures its financial assets to be available as general expenditures, liabilities and other obligations come 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 \$576,262, and bearing an interest rate of 1%. 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 in the accompanying consolidated financial statements are presented net of accumulated depreciation. Depreciation expense was \$827,507 for the year ended June 30, 2021. Property and equipment consist of the following as of June 30, 2021:

Land	\$ 1,564,000
Leasehold Improvements	53,791
Building	14,962,066
Computer Equipment	672,970
Furniture	182,820
Work in Progress	<u>1,774,522</u>
Total	19,210,169
Less: Accumulated Depreciation	<u>(3,685,770)</u>
Property and Equipment, Net	<u><u>\$ 15,524,399</u></u>



**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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% and a 60-month terms including five months construction term. As of June 30, 2021, the remaining balance was \$920,273.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 22,200
2023	23,570
2024	24,880
2025	849,623
Total	<u>\$ 920,273</u>

**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% 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, 2021, the remaining balance was \$1,479,500.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 78,255
2023	1,401,245
Total	<u>\$ 1,479,500</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%. As of June 30, 2021, 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%. As of June 30, 2021, 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%. As of June 30, 2021, the remaining balance was \$282,427.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 NOTES PAYABLE (CONTINUED)**

**Facilities Loans – Adams LLC (Continued)**

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%. As of June 30, 2021, 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%. As of June 30, 2021, 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%. As of June 30, 2021, 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%. As of June 30, 2021, 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%. As of June 30, 2021, the remaining balance was \$293,835.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ -
2023	7,400,451
2024	-
2025	-
2026	11,528
Thereafter	5,299,065
Total	<u>\$ 12,711,044</u>

**Pacific Charter School Development, Inc. – STEM Prep**

On August 13, 2020 STEM Prep entered into a promissory note with Pacific Charter School Development, Inc. (PCSD) in the amount of \$100,000 at zero interest. The note matures in August 2022 and does not require any payments until maturity. As of June 30, 2021, the entire loan balance of \$100,000 was outstanding. The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ -
2023	100,000
Total	<u>\$ 100,000</u>

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**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% 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 four years and the repayments will be withheld from the apportionment payments due to the Charter Elementary School. As of June 30, 2021, the remaining balance was \$124,996.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 62,502
2023	62,494
Total	<u>\$ 124,996</u>

**NOTE 7 OPERATING LEASES**

**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, 2021. Lease expense for the fiscal year ended June 30, 2021 was \$256,745, which is included in occupancy in the consolidated 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 in June 2016 and expires on June 30, 2026. During the year ended June 30, 2021, the lease expense was \$495,000.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 495,000
2023	527,083
2024	879,996
2025	879,996
2026	886,931
Total	<u>\$ 3,669,006</u>

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 7 OPERATING LEASES (CONTINUED)**

**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 November 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 the year ended June 30, 2021, the lease expense was \$455,940.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 464,834
2023	469,024
2024	469,024
2025	251,387
2026	251,387
Thereafter	1,685,158
Total	<u>\$ 3,590,814</u>

**35<sup>th</sup> St. LLC**

As part of the assignment of the Charter Elementary School lease indicated above 35th LLC assumed the lease payments to Abundant Life Christian Church. The term of the lease remained the same with an expiration date of November 1, 2037. During the year ended June 30, 2021, the lease expense was \$233,503.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 242,397
2023	246,587
2024	246,587
2025	246,587
2026	247,587
Thereafter	1,654,758
Total	<u>\$ 2,884,503</u>

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2021:

Subject to Expenditure for Specified Purpose:	
Bill and Melinda Gates Grant	\$ 475,487
Child Nutrition	<u>41,351</u>
Total Net Assets With Donor Restrictions	<u><u>\$ 516,838</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

Release of Net Assets	
By Satisfying Purpose Restriction	<u><u>\$ 147,831</u></u>

**NOTE 9 EMPLOYEE RETIREMENT**

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 multiemployer defined benefit pension plans are different from single- employer plans because: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if STEM Prep chooses to stop participating in the multiemployer plan, it may be required to pay a withdrawal liability to the plan. STEM Prep has no plans to withdraw from this multiemployer plan.

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

**Plan Description**

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

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

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)**

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

Funding Policy

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

STEM Prep's contributions to STRS for the past three years are as follows:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Contributed</u>
2019	\$ 1,024,738	100%
2020	1,116,334	100%
2021	1,070,568	100%

**Defined Contribution Plan**

STEM Prep offers an Internal Revenue Code Section 403(b) retirement plan to its qualifying employees. Permanent salaried employees who work over 30 hours per week and who are ineligible to participate in CalSTRS will receive a matching contribution up to 3% of their compensation. For the year ended June 30, 2021 the total employer contributions to the plan were \$42,685.

**NOTE 10 CONTINGENCIES, RISKS AND UNCERTAINTIES**

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.

In the prior fiscal year, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. Subsequent to year-end, the COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the STEM Prep, COVID-19 may impact various parts of its 2022 operations and financial results, including, but not limited to, loss of revenues, additional bad debts, costs for increased use of technology, or potential shortages of personnel. Management believes STEM Prep is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

## **SUPPLEMENTARY INFORMATION**

**STEM PREPARATORY SCHOOLS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2021**

Federal Grantor/Pass through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Charter Middle School	Charter High School	Charter Elementary School	Federal Expenditure Total
<b>U.S. Department of Education</b>						
Pass-Through California Department of Education (CDE):						
Coronavirus Aid, Relief, and Economic Security Act (CARES Act):						
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536	\$ 8,217	\$ 8,746	\$ 5,277	\$ 22,240
Total CARES Act:			8,217	8,746	5,277	22,240
State Charter School Facilities Incentive Grant Program	84.282D	N/A	166,344	-	-	166,344
Special Education Cluster:						
IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	83,737	102,130	60,945	246,812
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	219,069	235,864	114,135	569,068
Title II, Part A, Supporting Effective Instruction	84.367	14341	21,726	25,049	14,657	61,432
Title III, English Learner Student Program	84.365	14346	30,270	-	-	30,270
Title IV, Part A, Student Support and Academic Enrichment	84.424	15396	-	1,598	10,000	11,598
Total U.S. Department of Education			529,363	373,387	205,014	1,107,764
<b>U.S. Department of Agriculture</b>						
Pass-Through CDE:						
Child Nutrition Cluster:						
Especially Needy Breakfast	10.553	13526	-	-	119,440	119,440
National School Lunch Program	10.555	13524	2,100	12,276	179,936	194,312
Total Child Nutrition Cluster			2,100	12,276	299,376	313,752
Total U.S. Department of Agriculture			2,100	12,276	299,376	313,752
<b>U.S. Department of Treasury</b>						
Pass-Through CDE:						
Coronavirus Relief Fund - COVID-19 Funding	21.019	25516	407,333	616,802	241,208	1,265,343
Total U.S. Department of Treasury			407,333	616,802	241,208	1,265,343
Total Federal Programs			\$ 938,796	\$ 1,002,465	\$ 745,598	\$ 2,686,859

N/A - Pass-Through Entity Identifying Number not available.



**STEM PREPARATORY SCHOOLS, INC.  
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
JUNE 30, 2021**

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 fifth.

The board of directors and the administrators as of the year ended June 30, 2021 were as follows:

**GOVERNING BOARD**

<u>Member</u>	<u>Office</u>	<u>2-Year Term Expires</u>
Nik Orlando	Chair	May 2023
Andrew Kubasek	Treasurer	May 2023
Carmen Vazquez	Secretary	May 2023
Dale Henry	Member	May 2023
Desmond Lovell	Member	May 2023
Brad Zutaut	Member	May 2023

**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 INSTRUCTIONAL TIME  
YEAR ENDED JUNE 30, 2021**

	Traditional Calendar Days	Status
<b>Crown Preparatory Academy</b>		
Grade 5	182	In compliance
Grade 6	182	In compliance
Grade 7	182	In compliance
Grade 8	182	In compliance
<b>Math and Science College Preparatory School</b>		
Grade 9	182	In compliance
Grade 10	182	In compliance
Grade 11	182	In compliance
Grade 12	182	In compliance
<b>Stem Preparatory Elementary School</b>		
Grade TK and K	182	In compliance
Grade 1	182	In compliance
Grade 2	182	In compliance
Grade 3	182	In compliance
Grade 4	182	In compliance
Grade 5	182	In compliance

*See accompanying Notes to Supplementary Information*

**STEM PREPARATORY SCHOOLS, INC.  
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021**

	Charter Middle School	Charter High School	Charter Elementary School
	<u>                    </u>	<u>                    </u>	<u>                    </u>
June 30, 2021 Annual Financial Report Fund Balances (Net Assets)	\$ 5,238,754	\$ 5,773,306	\$ 2,202,513
Adjustments and Reclassifications:			
Increase (Decrease) of Fund Balance (Net Assets):			
Prepaid Expenses and Other Assets	-	-	(38,038)
Net Adjustments and Reclassifications	<u>-</u>	<u>-</u>	<u>(38,038)</u>
June 30, 2021 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 5,238,754</u>	<u>\$ 5,773,306</u>	<u>\$ 2,164,475</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2021**

<b>ASSETS</b>	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
<b>CURRENT ASSETS</b>								
Cash and Cash Equivalents	\$ 271,018	\$ 2,644,059	\$ 2,625,103	\$ 730,701	\$ 125,500	\$ 79,601	\$ -	\$ 6,475,982
Restricted Cash and Cash Equivalents	-	-	-	-	253,198	-	-	253,198
Accounts Receivable	7,408	1,201,745	2,009,922	1,448,549	-	9,583	-	4,677,207
Intercompany Receivables	230	-	123,819	22,002	10,775	-	(156,826)	-
Prepaid Expenses and Other Assets	17,767	48,979	94,064	53,004	-	22,002	-	235,816
Total Current Assets	<u>296,423</u>	<u>3,894,783</u>	<u>4,852,908</u>	<u>2,254,256</u>	<u>389,473</u>	<u>111,186</u>	<u>(156,826)</u>	<u>11,642,203</u>
<b>NONCURRENT ASSETS</b>								
Capital Contribution	-	-	535,433	310,082	-	-	(845,515)	-
Long-Term Receivables	-	-	576,262	-	-	-	-	576,262
Property and Equipment, Net	61,194	1,772,221	575,726	121,493	10,186,530	2,807,235	-	15,524,399
Total Noncurrent Assets	<u>61,194</u>	<u>1,772,221</u>	<u>1,687,421</u>	<u>431,575</u>	<u>10,186,530</u>	<u>2,807,235</u>	<u>(845,515)</u>	<u>16,100,661</u>
Total Assets	<u>\$ 357,617</u>	<u>\$ 5,667,004</u>	<u>\$ 6,540,329</u>	<u>\$ 2,685,831</u>	<u>\$ 10,576,003</u>	<u>\$ 2,918,421</u>	<u>\$ (1,002,341)</u>	<u>\$ 27,742,864</u>
<b>LIABILITIES AND NET ASSETS</b>								
<b>CURRENT LIABILITIES</b>								
Accounts Payable and Accrued Liabilities	\$ 128,553	\$ 67,608	\$ 246,625	\$ 113,719	\$ 63,248	\$ 128	\$ -	\$ 619,881
Intercompany Payables	-	-	-	-	124,049	32,777	(156,826)	-
Deferred Revenue	-	360,642	470,398	232,641	-	-	-	1,063,681
Current Portion of Notes Payable	-	-	-	-	-	100,455	-	100,455
Current Portion of Revolving Loan	-	-	-	62,502	-	-	-	62,502
Total Current Liabilities	<u>128,553</u>	<u>428,250</u>	<u>717,023</u>	<u>408,862</u>	<u>187,297</u>	<u>133,360</u>	<u>(156,826)</u>	<u>1,846,519</u>
<b>LONG-TERM LIABILITIES</b>								
Notes Payable, Less Current Portion	-	-	50,000	50,000	12,711,044	2,299,318	-	15,110,362
Revolving Loan, Less Current Portion	-	-	-	62,494	-	-	-	62,494
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>112,494</u>	<u>12,711,044</u>	<u>2,299,318</u>	<u>-</u>	<u>15,172,856</u>
Total Liabilities	<u>128,553</u>	<u>428,250</u>	<u>767,023</u>	<u>521,356</u>	<u>12,898,341</u>	<u>2,432,678</u>	<u>(156,826)</u>	<u>17,019,375</u>
<b>NET ASSETS</b>								
Without Donor Restrictions	(246,423)	5,238,754	5,773,306	2,123,124	(2,322,338)	485,743	(845,515)	10,206,651
With Donor Restrictions	475,487	-	-	41,351	-	-	-	516,838
Total Net Assets	<u>229,064</u>	<u>5,238,754</u>	<u>5,773,306</u>	<u>2,164,475</u>	<u>(2,322,338)</u>	<u>485,743</u>	<u>(845,515)</u>	<u>10,723,489</u>
Total Liabilities and Net Assets	<u>\$ 357,617</u>	<u>\$ 5,667,004</u>	<u>\$ 6,540,329</u>	<u>\$ 2,685,831</u>	<u>\$ 10,576,003</u>	<u>\$ 2,918,421</u>	<u>\$ (1,002,341)</u>	<u>\$ 27,742,864</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.  
CONSOLIDATING STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021**

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
<b>REVENUES, WITHOUT DONOR RESTRICTION</b>								
State Revenue:								
Local Control Funding Formula	\$ -	\$ 4,383,506	\$ 6,414,459	\$ 3,326,980	\$ -	\$ -	\$ -	\$ 14,124,945
Other State Revenue	-	643,321	884,433	772,506	-	-	-	2,300,260
Federal Revenue:								
Grants and Entitlements	-	938,796	1,002,465	745,598	-	-	-	2,686,859
Local Revenue:								
Contributions	456,093	450	16,507	425	-	-	-	473,475
Interest Income	-	-	6,243	-	-	-	-	6,243
Other Revenue	1,429,135	307,037	1,070,608	56,036	495,000	455,940	(1,615,865)	2,197,891
Net Assets Released from Restrictions	147,831	-	-	-	-	-	-	147,831
<b>Total Revenues</b>	<b>2,033,059</b>	<b>6,273,110</b>	<b>9,394,715</b>	<b>4,901,545</b>	<b>495,000</b>	<b>455,940</b>	<b>(1,615,865)</b>	<b>21,937,504</b>
<b>EXPENSES</b>								
Program Services	896,900	3,873,091	5,451,120	3,339,713	568,510	403,286	(1,049,415)	13,483,205
Management and General	1,467,319	502,137	1,272,680	496,135	548,288	98,352	(566,450)	3,818,461
Fundraising	-	5	3	9	-	-	-	17
<b>Total Expenses</b>	<b>2,364,219</b>	<b>4,375,233</b>	<b>6,723,803</b>	<b>3,835,857</b>	<b>1,116,798</b>	<b>501,638</b>	<b>(1,615,865)</b>	<b>17,301,683</b>
Change in Net Assets Without Donor Restriction	(331,160)	1,897,877	2,670,912	1,065,688	(621,798)	(45,698)	-	4,635,821
<b>NET ASSETS WITH DONOR RESTRICTION</b>								
Contributions	475,487	-	-	-	-	-	-	475,487
Other State Revenue	-	-	-	41,351	-	-	-	41,351
Net Assets Released from Restriction	(147,831)	-	-	-	-	-	-	(147,831)
Change in Net Assets With Donor Restrictions	327,656	-	-	41,351	-	-	-	369,007
<b>CHANGE IN NET ASSETS</b>	<b>(3,504)</b>	<b>1,897,877</b>	<b>2,670,912</b>	<b>1,107,039</b>	<b>(621,798)</b>	<b>(45,698)</b>	<b>-</b>	<b>5,004,828</b>
Net Assets - Beginning of Year	232,568	3,340,877	3,102,394	1,057,436	(1,700,540)	531,441	(845,515)	5,718,661
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 229,064</b>	<b>\$ 5,238,754</b>	<b>\$ 5,773,306</b>	<b>\$ 2,164,475</b>	<b>\$ (2,322,338)</b>	<b>\$ 485,743</b>	<b>\$ (845,515)</b>	<b>\$ 10,723,489</b>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2021**

	Home Office				Charter Middle School			
	Program Services	Management and General	Fundraising	Subtotal	Program Services	Management and General	Fundraising	Subtotal
Salaries	\$ 769,063	\$ 770,854	\$ -	\$ 1,539,917	\$ 2,390,775	\$ 232,853	\$ -	\$ 2,623,628
Pension Expense	123,859	41,789	-	165,648	325,052	482	-	325,534
Other Employee Benefits	23,011	51,339	-	74,350	246,922	24,049	-	270,971
Payroll Taxes	14,888	40,148	-	55,036	53,721	18,720	-	72,441
Legal Expenses	-	31,334	-	31,334	-	1,767	-	1,767
Accounting Expenses	-	23,278	-	23,278	-	-	-	-
Other Fees for Services	9,728	428,032	-	437,760	272,722	6,852	-	279,574
Advertising and Promotions	-	7,754	-	7,754	-	9,449	-	9,449
Office Expenses	(86,912)	12,759	-	(74,153)	126,208	89,683	-	215,891
Information Technology	-	42,001	-	42,001	-	13,045	-	13,045
Occupancy	446	447	-	893	235,274	22,915	-	258,189
Travel	8,512	-	-	8,512	475	-	-	475
Interest	-	(3,352)	-	(3,352)	-	-	-	-
Depreciation	11,928	-	-	11,928	13,500	-	-	13,500
Insurance	-	2,391	-	2,391	-	63,419	-	63,419
Other Expenses	18,787	18,545	-	37,332	93,571	18,903	5	112,479
Instructional Materials	3,590	-	-	3,590	71,037	-	-	71,037
Intra-Agency fees	-	-	-	-	-	-	-	-
District Oversight Fees	-	-	-	-	43,834	-	-	43,834
<b>Total Expenses by Function</b>	<b><u>\$ 896,900</u></b>	<b><u>\$ 1,467,319</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,364,219</u></b>	<b><u>\$ 3,873,091</u></b>	<b><u>\$ 502,137</u></b>	<b><u>\$ 5</u></b>	<b><u>\$ 4,375,233</u></b>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2021**

	Charter High School				Charter Elementary School			
	Program Services	Management and General	Fundraising	Subtotal	Program Services	Management and General	Fundraising	Subtotal
Salaries	\$ 2,941,775	\$ 362,844	\$ -	\$ 3,304,619	\$ 1,649,775	\$ 218,398	\$ -	\$ 1,868,173
Pension Expense	415,278	1,170	-	416,448	204,387	1,236	-	205,623
Employee Benefits	374,150	46,148	-	420,298	126,879	16,796	-	143,675
Payroll Taxes	60,912	26,436	-	87,348	48,621	16,501	-	65,122
Legal Expenses	-	2,830	-	2,830	-	13,986	-	13,986
Accounting Expenses	-	-	-	-	-	-	-	-
Other Fees for Services	135,173	11,860	-	147,033	155,586	5,124	-	160,710
Advertising and Promotions	-	16,000	-	16,000	-	6,000	-	6,000
Office Expenses	305,706	104,242	-	409,948	124,908	112,285	-	237,193
Information Technology	-	24,229	-	24,229	-	8,804	-	8,804
Occupancy	519,090	64,026	-	583,116	415,802	50,008	-	465,810
Travel	12,130	-	-	12,130	625	-	-	625
Interest	-	-	-	-	-	3,960	-	3,960
Depreciation	64,710	-	-	64,710	14,501	-	-	14,501
Insurance	-	100,617	-	100,617	-	28,408	-	28,408
Other Expenses	110,942	53,480	3	164,425	492,616	14,629	9	507,254
Instructional Materials	240,984	-	-	240,984	72,742	-	-	72,742
Intra-Agency fees	206,127	458,798	-	664,925	-	-	-	-
District Oversight Fees	64,143	-	-	64,143	33,271	-	-	33,271
<b>Total Expenses by Function</b>	<b><u>\$ 5,451,120</u></b>	<b><u>\$ 1,272,680</u></b>	<b><u>\$ 3</u></b>	<b><u>\$ 6,723,803</u></b>	<b><u>\$ 3,339,713</u></b>	<b><u>\$ 496,135</u></b>	<b><u>\$ 9</u></b>	<b><u>\$ 3,835,857</u></b>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2021**

	Adams LLC			35th Street LLC			Eliminations	Total
	Program Services	Management and General	Subtotal	Program Services	Management and General	Subtotal		
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,336,337
Pension Expense	-	-	-	-	-	-	-	1,113,253
Employee Benefits	-	-	-	-	-	-	-	909,294
Payroll Taxes	-	-	-	-	-	-	-	279,947
Legal Expenses	-	-	-	-	-	-	-	49,917
Accounting Expenses	-	-	-	-	-	-	-	23,278
Other Fees for Services	-	19,750	19,750	-	-	-	-	1,044,827
Advertising and Promotions	-	-	-	-	-	-	-	39,203
Office Expenses	-	-	-	-	-	-	-	788,879
Information Technology	-	-	-	-	-	-	-	88,079
Occupancy	-	-	-	248,928	-	248,928	(950,940)	605,996
Travel	-	-	-	-	-	-	-	21,742
Interest	-	521,980	521,980	-	98,449	98,449	-	621,037
Depreciation	568,510	-	568,510	154,358	-	154,358	-	827,507
Insurance	-	6,030	6,030	-	-	-	-	200,865
Other Expenses	-	528	528	-	(97)	(97)	-	821,921
Instructional Materials	-	-	-	-	-	-	-	388,353
Intra-Agency fees	-	-	-	-	-	-	(664,925)	-
District Oversight Fees	-	-	-	-	-	-	-	141,248
<b>Total Expenses by Function</b>	<b>\$ 568,510</b>	<b>\$ 548,288</b>	<b>\$ 1,116,798</b>	<b>\$ 403,286</b>	<b>\$ 98,352</b>	<b>\$ 501,638</b>	<b>\$ (1,615,865)</b>	<b>\$ 17,301,683</b>

See accompanying Notes to Supplementary Information



**STEM PREPARATORY SCHOOLS, INC.**  
**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2021**

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Change in Net Assets	\$ (3,504)	\$ 1,897,877	\$ 2,670,912	\$ 1,107,039	\$ (621,798)	\$ (45,698)	\$ -	\$ 5,004,828
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:								
Depreciation Expense	11,928	13,500	64,710	14,501	568,510	154,358	-	827,507
Change in Operating Assets:								
Accounts Receivable	1,040	(516,267)	(1,398,676)	(984,932)	-	5,776	-	(2,893,059)
Intercompany Receivables	(230)	-	-	(22,002)	-	-	22,232	-
Prepaid Expenses and Other Assets	18,767	(10,910)	(7,260)	8,386	-	(129)	-	8,854
Change in Operating Liabilities:								
Accounts Payable and Accrued Liabilities	(110,652)	(261,458)	11,930	17,622	14,740	(129,602)	-	(457,420)
Intercompany Payables	-	-	-	-	230	22,002	(22,232)	-
Deferred Revenue	-	360,642	470,398	232,641	-	(27,316)	-	1,036,365
Refundable Advance	-	(34,229)	-	-	-	-	-	(34,229)
Refundable Advance - PPP	(2,150,102)	-	-	-	-	-	-	(2,150,102)
Net Cash Provided (Used) by Operating Activities	<u>(2,232,753)</u>	<u>1,449,155</u>	<u>1,812,014</u>	<u>373,255</u>	<u>(38,318)</u>	<u>(20,609)</u>	<u>-</u>	<u>1,342,744</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
Purchases of Property and Equipment	(8,426)	(8,869)	(95,040)	(20,945)	-	(133,412)	-	(266,692)
Net Cash Used by Investing Activities	<u>(8,426)</u>	<u>(8,869)</u>	<u>(95,040)</u>	<u>(20,945)</u>	<u>-</u>	<u>(133,412)</u>	<u>-</u>	<u>(266,692)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Proceeds from Issuance of Notes Payable	-	-	50,000	50,000	-	227,356	-	327,356
Principal Payments on Notes Payable	-	-	-	-	-	(116,899)	-	(116,899)
Principal Payments on Revolving Loan	-	-	-	(62,502)	-	-	-	(62,502)
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>(12,502)</u>	<u>-</u>	<u>110,457</u>	<u>-</u>	<u>147,955</u>
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>								
	(2,241,179)	1,440,286	1,766,974	339,808	(38,318)	(43,564)	-	1,224,007
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<u>2,512,197</u>	<u>1,203,773</u>	<u>858,129</u>	<u>390,893</u>	<u>417,016</u>	<u>123,165</u>	<u>-</u>	<u>5,505,173</u>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR</b>								
	<u>\$ 271,018</u>	<u>\$ 2,644,059</u>	<u>\$ 2,625,103</u>	<u>\$ 730,701</u>	<u>\$ 378,698</u>	<u>\$ 79,601</u>	<u>\$ -</u>	<u>\$ 6,729,180</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>								
Cash Paid for Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,960</u>	<u>\$ 521,980</u>	<u>\$ 98,449</u>	<u>\$ -</u>	<u>\$ 624,389</u>
<b>RECONCILIATION TO STATEMENT OF FINANCIAL POSITION</b>								
Cash and Cash Equivalents	\$ 271,018	\$ 2,644,059	\$ 2,625,103	\$ 730,701	\$ 125,500	\$ 79,601	\$ -	\$ 6,475,982
Restricted Cash and Cash Equivalents	-	-	-	-	253,198	-	-	253,198
Total Cash and Cash Equivalents	<u>\$ 271,018</u>	<u>\$ 2,644,059</u>	<u>\$ 2,625,103</u>	<u>\$ 730,701</u>	<u>\$ 378,698</u>	<u>\$ 79,601</u>	<u>\$ -</u>	<u>\$ 6,729,180</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS, INC.  
NOTES TO SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2021**

**PURPOSE OF SCHEDULES**

**NOTE 1 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, 2021. 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance for all awards with the exception of Assistance Listing 21.019, which follows criteria determined by the Department of Treasury for allowability of costs. Under these principles certain types of expenditures are not allowable or are limited as to reimbursement. 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.

**NOTE 2 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**

This schedule provides information about STEM Prep's operations, members of the governing board, and members of the administration.

**NOTE 3 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 California Education Code.

**NOTE 4 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.

**STEM PREPARATORY SCHOOLS, INC.**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2021**

**NOTE 5 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 AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities, cash flows, and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 21, 2021.

**Internal Control Over Financial Reporting**

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the STEM Prep’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, California  
December 21, 2021



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

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

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

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

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

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

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

Our responsibility is to express an opinion on compliance for each of 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, 2021.

### **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 combination of deficiencies in internal control over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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



**CliftonLarsonAllen LLP**

Glendora, California  
December 21, 2021



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors  
STEM Preparatory Schools, Inc.  
Willows, California

We have audited STEM Preparatory Schools, Inc.'s (STEM Prep) compliance with the types of compliance requirements described in the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2021. The School's state compliance requirements are identified in the table below.

### Management's Responsibility

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

### Auditor's Responsibility

Our responsibility is to express an opinion on STEM Prep's compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about 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. 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 laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies:	
Attendance and Distance Learning	Yes
Instructional Time	Yes
School Districts, County Office of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not applicable



<u>Description</u>	<u>Procedures Performed</u>
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Charter Schools:	
Independent Study Course Based	Not applicable
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	Not applicable
Determination of Funding for Non Classroom-Based Instruction	Not applicable
Charter School Facility Grant Program	Yes

**Opinion on State Compliance**

In our opinion, STEM Prep complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2021.

**Purpose of this Report**

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Glendora, California  
December 21, 2021

**STEM PREPARATORY SCHOOLS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2021**

---

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

---

***Consolidating Financial Statements***

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

***Federal Awards***

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

***Identification of Major Federal Programs***

<b>Assistance Listing Number(s)</b>	<b>Name of Federal Program or Cluster</b>
21.019	Coronavirus Relief Fund

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

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

**STEM PREPARATORY SCHOOLS, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2021**

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
43000	Apprenticeship
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*, 2CFR 200.516(a) or the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

**STEM PREPARATORY SCHOOLS, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2021**

There were no findings and questioned costs related to the consolidated financial statements, federal awards, or state awards in the prior year.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. CLA is an independent member of Nexia International, a leading, global network of independent accounting and consulting firms. See [nexia.com/member-firm-disclaimer](https://www.nexia.com/member-firm-disclaimer) for details. **CliftonLarsonAllen LLP**

