

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022

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



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INDEPENDENT AUDITORS' REPORT

Governing Board
STEM Preparatory Schools
Los Angeles, California

Report on the Financial Statements

Opinion

We have audited the accompanying 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, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of STEM Prep as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of STEM Prep and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about STEM Prep's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about STEM Prep's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2022 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 the 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 12, 2022

**STEM PREPARATORY SCHOOLS
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 9,169,342
Restricted Cash and Cash Equivalents	223,777
Accounts Receivable	4,857,211
Note Receivable	3,237
Prepaid Expenses and Other Assets	343,468
Total Current Assets	<u>14,597,035</u>

NONCURRENT ASSETS

Note Receivable	573,025
Property and Equipment, Net	14,875,875
Total Noncurrent Assets	<u>15,448,900</u>

Total Assets	<u><u>\$ 30,045,935</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Liabilities	\$ 1,020,602
Deferred Revenue	1,772,327
Current Portion of Notes Payable	8,814,302
Current Portion of Revolving Loan	62,494
Total Current Liabilities	<u>11,669,725</u>

LONG-TERM LIABILITIES

Notes Payable, Less Current Portion	6,210,942
Total Long-Term Liabilities	<u>6,210,942</u>
Total Liabilities	17,880,667

NET ASSETS

Without Donor Restrictions	11,690,259
With Donor Restrictions	475,009
Total Net Assets	<u>12,165,268</u>

Total Liabilities and Net Assets	<u><u>\$ 30,045,935</u></u>
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See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES			
State Revenue:			
Local Control Funding Formula	\$ 15,653,506	\$ -	\$ 15,653,506
Other State Revenue	2,770,156	164,422	2,934,578
Federal Revenue:			
Grants and Entitlements	4,644,796	-	4,644,796
Local Revenue:			
Contributions	335,402	-	335,402
Interest Income	5,763	-	5,763
Other Revenue	39,671	-	39,671
Net Assets Released from Restrictions	206,251	(206,251)	-
Total Revenues	23,655,545	(41,829)	23,613,716
EXPENSES			
Program Services	17,137,893	-	17,137,893
Management and General	5,027,261	-	5,027,261
Fundraising	6,783	-	6,783
Total Expenses	22,171,937	-	22,171,937
CHANGE IN NET ASSETS	1,483,608	(41,829)	1,441,779
Net Assets - Beginning of Year	10,206,701	516,838	10,723,539
NET ASSETS - END OF YEAR	\$ 11,690,309	\$ 475,009	\$ 12,165,318

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 9,423,180	\$ 1,937,173	\$ -	\$ 11,360,353
Pension Expense	1,325,588	76,427	-	1,402,015
Other Employee Benefits	929,780	158,215	-	1,087,995
Payroll Taxes	277,264	146,085	-	423,349
Legal Expenses	-	48,123	-	48,123
Accounting Expenses	-	33,547	-	33,547
Other Fees for Services	1,071,749	789,808	-	1,861,557
Advertising and Promotions	-	59,630	-	59,630
Office Expenses	595,565	298,602	-	894,167
Information Technology	-	78,938	-	78,938
Occupancy	671,778	79,226	-	751,004
Travel	132,180	-	-	132,180
Interest	-	618,926	-	618,926
Depreciation	857,580	-	-	857,580
Insurance	-	228,493	-	228,493
Other Expenses	1,239,940	474,068	6,783	1,720,791
Instructional Materials	468,871	-	-	468,871
District Oversight Fees	144,418	-	-	144,418
Total Functional Expenses	<u>\$ 17,137,893</u>	<u>\$ 5,027,261</u>	<u>\$ 6,783</u>	<u>\$ 22,171,937</u>

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 1,441,779
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation Expense	857,580
Change in Operating Assets:	
Accounts Receivable	(218,042)
Prepaid Expenses	(107,652)
Change in Operating Liabilities:	
Accounts Payable and Accrued Liabilities	438,760
Deferred Revenue	708,646
Net Cash Provided by Operating Activities	3,121,071

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of Property and Equipment	(209,057)
Net Cash Used by Investing Activities	(209,057)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from Issuance of Notes Payable	23,071
Principal Payments on Notes	(208,644)
Principal Payments on Revolving Loan	(62,502)
Net Cash Used by Financing Activities	(248,075)

NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH

2,663,939

Cash, Cash Equivalents and Restricted Cash - Beginning of Year

6,729,180

CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR

\$ 9,393,119

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid for Interest	\$ 622,278
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RECONCILIATION TO STATEMENT OF FINANCIAL POSITION

Cash and Cash Equivalents	\$ 9,169,342
Restricted Cash and Cash Equivalents	223,777
Total Cash and Cash Equivalents	\$ 9,393,119

See accompanying Notes to Financial Statements.

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

STEM Preparatory Schools (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 429 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

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 and a two year extension granted by the state ending in 2024.

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 530 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 338 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022, 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

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, 2022.

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

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.

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022, STEM Prep has conditional grants of \$5,932,070 of which \$1,733,242 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. 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.

STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as a liability of STEM Prep. 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.

Evaluation of Subsequent Events

STEM Prep has evaluated subsequent events through December 12, 2022, the date these consolidated financial statements were available to be issued.

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	\$ 9,169,342
Accounts Receivable	4,857,211
Less: Net Assets With Donor Restrictions	<u>(475,009)</u>
Total	<u>\$ 13,551,544</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.

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment in the accompanying consolidated financial statements are presented net of accumulated depreciation. Depreciation expense was \$857,580 for the year ended June 30, 2022. Property and equipment consist of the following as of June 30, 2022:

Land	\$ 1,564,000
Leasehold Improvements	78,775
Building	14,970,524
Computer Equipment	822,849
Furniture	186,681
Work in Progress	1,796,394
Total	19,419,223
Less: Accumulated Depreciation	(4,543,348)
Property and Equipment, Net	\$ 14,875,875

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, 2022, the remaining balance was \$922,320.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 21,971
2024	24,122
2025	876,227
Total	\$ 922,320

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, 2022, the remaining balance was \$1,391,880 and is expected to be repaid in the next fiscal year.

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 NOTES PAYABLE (CONTINUED)

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, 2022, 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, 2022, 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, 2022, 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%. As of June 30, 2022, 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, 2022, 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, 2022, 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, 2022, 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, 2022, the remaining balance was \$293,835.

The repayment schedule is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 7,400,451
2024	-
2025	-
2026	11,528
2027	141,455
Thereafter	5,157,610
Total	<u><u>\$ 12,711,044</u></u>

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 NOTES PAYABLE (CONTINUED)

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 was repaid during the year ended June 30, 2022.

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, 2022, the remaining balance was \$62,494 and is expected to be repaid in the following fiscal year.

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, 2022 was \$266,829, 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, 2022, the lease expense was \$495,000.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 527,083
2024	879,996
2025	879,996
2026	886,931
Total	<u>\$ 3,174,006</u>

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

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, 2022, the lease expense was \$464,834.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 469,024
2024	469,024
2025	251,387
2026	251,387
2027	260,185
Thereafter	1,424,973
Total	<u>\$ 3,125,980</u>

35th 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, 2022, the lease expense was \$242,397.

Future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 246,587
2024	246,587
2025	246,587
2026	246,587
2027	255,385
Thereafter	1,399,373
Total	<u>\$ 2,641,106</u>

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30, 2022:

Subject to Expenditure for Specified Purpose:	
Bill and Melinda Gates Grant	\$ 269,236
Child Nutrition	150,422
SNP COVID-19 (ECR)	55,351
Total Net Assets With Donor Restrictions	<u>\$ 475,009</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>\$ 206,251</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, 2021 total STRS plan net assets are \$310 billion, the total actuarial present value of accumulated plan benefits is \$414 billion, contributions from all employers totaled \$5.744 billion, and the plan is 73% funded. STEM Prep 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.

**STEM PREPARATORY SCHOOLS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2022**

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, 2022 was 16.92% 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>
2020	\$ 1,116,334	100%
2021	1,070,568	100%
2022	1,313,637	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, 2022 the total employer contributions to the plan were \$88,378.

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.

SUPPLEMENTARY INFORMATION

**STEM PREPARATORY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2022**

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
U.S. Department of Education						
Pass-Through California Department of Education (CDE):						
Coronavirus Aid, Relief, and Economic Security Act (CARES Act):						
Governor's Emergency Education Relief (GEER) Fund	84.425C	15517	\$ 14,722	\$ 30,362	\$ 10,580	\$ 55,664
Expanded Learning Opportunities (ELO) Grant GEER II	84.425C	15619	10,284	15,691	7,873	33,848
Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	15536	170,483	179,572	85,030	435,085
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	506,392	507,621	320,085	1,334,098
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425U	15559	253,383	166,142	34,901	454,426
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425D	15618	44,808	68,368	34,305	147,481
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425U	15620	29,209	44,568	22,363	96,140
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425U	15621	25,201	38,258	38,549	102,008
Total CARES Act (COVID-19):			<u>1,054,482</u>	<u>1,050,582</u>	<u>553,686</u>	<u>2,658,750</u>
State Charter School Facilities Incentive Grant Program	84.282D	N/A	27,725	-	-	27,725
Special Education Cluster:						
IDEA Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	111,743	144,868	84,277	340,888
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	207,212	223,098	127,303	557,613
Title II, Part A, Supporting Effective Instruction	84.367	14341	24,382	27,280	15,828	67,490
Title III, English Learner Student Program	84.365	14346	36,279	-	-	36,279
Title IV, Part A, Student Support and Academic Enrichment	84.424	15396	19,156	32,600	10,000	61,756
Total U.S. Department of Education			<u>1,480,979</u>	<u>1,478,428</u>	<u>791,094</u>	<u>3,750,501</u>
U.S. Department of Agriculture						
Pass-Through CDE:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	13524	281,481	152,473	268,215	702,169
Total Child Nutrition Cluster			<u>281,481</u>	<u>152,473</u>	<u>268,215</u>	<u>702,169</u>
Child and Adult Care Food Program	10.558	13393	69,858	22,195	53,198	145,251
Total U.S. Department of Agriculture			<u>351,339</u>	<u>174,668</u>	<u>321,413</u>	<u>847,420</u>
U.S. Department of Health and Human Services						
Pass-Through Los Angeles County Office of Education:						
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	N/A	-	46,875	-	46,875
Total U.S. Department of Health and Human Services			<u>-</u>	<u>46,875</u>	<u>-</u>	<u>46,875</u>
Total Federal Programs			<u>\$ 1,832,318</u>	<u>\$ 1,699,971</u>	<u>\$ 1,112,507</u>	<u>\$ 4,644,796</u>

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

**STEM PREPARATORY SCHOOLS
 LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
 JUNE 30, 2022
 (SEE INDEPENDENT AUDITORS' REPORT)
 UNAUDITED**

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 and an extension granted by the state through 2024. 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, 2022 were as follows:

GOVERNING BOARD

<u>Member</u>	<u>Office</u>	<u>2-Year Term Expires</u>
Carmen Vazquez	Chair	May 2023
Andrew Kubasek	Treasurer	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
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2022**

	Instructional Minutes		Traditional Calendar Days	Status
	Requirement	Actual		
Crown Preparatory Academy				
Grade 5	54,000	65,856	182	In compliance
Grade 6	54,000	65,268	182	In compliance
Grade 7	54,000	65,268	182	In compliance
Grade 8	54,000	65,268	182	In compliance
Math and Science College Preparatory School				
Grade 9	64,800	67,380	182	In compliance
Grade 10	64,800	67,380	182	In compliance
Grade 11	64,800	67,380	182	In compliance
Grade 12	64,800	67,380	182	In compliance
Stem Preparatory Elementary School				
Grade TK and K	36,000	57,255	182	In compliance
Grade 1	50,400	54,531	182	In compliance
Grade 2	50,400	54,531	182	In compliance
Grade 3	50,400	55,271	182	In compliance
Grade 4	54,000	58,896	182	In compliance
Grade 5	54,000	58,896	182	In compliance

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2022**

	Second Period Report		Audit Adjustments		Second Period Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Crown Preparatory Academy						
Grades 4-6	186.64	195.64	-	(0.92)	186.64	194.72
Grades 7-8	168.24	176.91	-	(0.68)	168.24	176.23
ADA Totals	<u>354.88</u>	<u>372.55</u>	<u>-</u>	<u>(1.60)</u>	<u>354.88</u>	<u>370.95</u>
Math and Science College Preparatory School						
Grades 9-12	476.10	482.99	-	-	476.10	482.99
ADA Totals	<u>476.10</u>	<u>482.99</u>	<u>-</u>	<u>-</u>	<u>476.10</u>	<u>482.99</u>
STEM Preparatory Elementary School						
Grades TK/K-3	195.14	198.20	-	(0.39)	195.14	197.81
Grades 4-6	79.86	80.27	-	-	79.86	80.27
	<u>275.00</u>	<u>278.47</u>	<u>-</u>	<u>(0.39)</u>	<u>275.00</u>	<u>278.08</u>
Annual Report						
	Annual Report		Audit Adjustments		Annual Report (Audited)	
	Classroom Based	Total	Classroom Based	Total	Classroom Based	Total
Crown Preparatory Academy						
Grades 4-6	187.36	195.90	-	(0.92)	187.36	194.98
Grades 7-8	168.26	175.81	-	(0.68)	168.26	175.13
ADA Totals	<u>355.62</u>	<u>371.71</u>	<u>-</u>	<u>(1.60)</u>	<u>355.62</u>	<u>370.11</u>
Math and Science College Preparatory School						
Grades 9-12	474.82	481.48	-	-	474.82	481.48
ADA Totals	<u>474.82</u>	<u>481.48</u>	<u>-</u>	<u>-</u>	<u>474.82</u>	<u>481.48</u>
STEM Preparatory Elementary School						
Grades TK/K-3	195.41	199.22	-	(0.39)	195.41	198.83
Grades 4-6	80.73	81.25	-	-	80.73	81.25
	<u>276.14</u>	<u>280.47</u>	<u>-</u>	<u>(0.39)</u>	<u>276.14</u>	<u>280.08</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2022**

	Charter Middle School	Charter High School	Charter Elementary School
June 30, 2022 Annual Financial Report Fund Balances (Net Assets)	\$ 5,560,671	\$ 6,134,717	\$ 2,452,560
Adjustments and Reclassifications:			
Increase (Decrease) of Fund Balance (Net Assets):			
Accounts Receivable	387,472	175,153	490,911
Prepaid Expenses and Other Assets	(640)	31,939	(29,309)
Accounts Payable and Accrued Liabilities	43	-	(38,039)
Deferred Revenue	33,440	122,379	-
Net Adjustments and Reclassifications	<u>420,315</u>	<u>329,471</u>	<u>423,563</u>
June 30, 2022 Audited Financial Statement Fund Balances (Net Assets)	<u>\$ 5,980,986</u>	<u>\$ 6,464,188</u>	<u>\$ 2,876,123</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2022**

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
ASSETS								
CURRENT ASSETS								
Cash and Cash Equivalents	\$ 234,964	\$ 3,089,780	\$ 4,161,785	\$ 1,478,125	\$ 93,271	\$ 111,417	\$ -	\$ 9,169,342
Restricted Cash and Cash Equivalents	-	-	-	-	223,777	-	-	223,777
Accounts Receivable	7,328	1,799,027	1,302,612	1,733,661	-	52,621	(38,038)	4,857,211
Intercompany Receivables	230	-	123,895	22,002	10,775	-	(156,902)	-
Note Receivable	-	-	3,237	-	-	-	-	3,237
Prepaid Expenses and Other Assets	55,759	74,117	121,350	89,742	-	2,500	-	343,468
Total Current Assets	<u>298,281</u>	<u>4,962,924</u>	<u>5,712,879</u>	<u>3,323,530</u>	<u>327,823</u>	<u>166,538</u>	<u>(194,940)</u>	<u>14,597,035</u>
NONCURRENT ASSETS								
Capital Contribution	-	-	535,433	310,082	-	-	(845,515)	-
Note Receivable	-	-	573,025	-	-	-	-	573,025
Property and Equipment, Net	55,067	1,806,403	599,977	125,418	9,618,406	2,670,604	-	14,875,875
Total Noncurrent Assets	<u>55,067</u>	<u>1,806,403</u>	<u>1,708,435</u>	<u>435,500</u>	<u>9,618,406</u>	<u>2,670,604</u>	<u>(845,515)</u>	<u>15,448,900</u>
Total Assets	<u>\$ 353,348</u>	<u>\$ 6,769,327</u>	<u>\$ 7,421,314</u>	<u>\$ 3,759,030</u>	<u>\$ 9,946,229</u>	<u>\$ 2,837,142</u>	<u>\$ (1,040,455)</u>	<u>\$ 30,045,935</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES								
Accounts Payable and Accrued Liabilities	\$ 136,342	\$ 308,043	\$ 260,839	\$ 263,756	\$ 43,498	\$ 46,162	\$ (38,038)	\$ 1,020,602
Intercompany Payables	-	-	-	-	124,090	32,812	(156,902)	-
Deferred Revenue	-	480,298	696,287	556,657	-	39,085	-	1,772,327
Current Portion of Notes Payable	-	-	-	-	7,400,451	1,413,851	-	8,814,302
Current Portion of Revolving Loan	-	-	-	62,494	-	-	-	62,494
Total Current Liabilities	<u>136,342</u>	<u>788,341</u>	<u>957,126</u>	<u>882,907</u>	<u>7,568,039</u>	<u>1,531,910</u>	<u>(194,940)</u>	<u>11,669,725</u>
LONG-TERM LIABILITIES								
Notes Payable, Less Current Portion	-	-	-	-	5,310,593	900,349	-	6,210,942
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,310,593</u>	<u>900,349</u>	<u>-</u>	<u>6,210,942</u>
Total Liabilities	136,342	788,341	957,126	882,907	12,878,632	2,432,259	(194,940)	17,880,667
NET ASSETS								
Without Donor Restrictions	(52,230)	5,924,552	6,464,188	2,726,784	(2,932,403)	404,883	(845,515)	11,690,259
With Donor Restrictions	269,236	56,434	-	149,339	-	-	-	475,009
Total Net Assets	<u>217,006</u>	<u>5,980,986</u>	<u>6,464,188</u>	<u>2,876,123</u>	<u>(2,932,403)</u>	<u>404,883</u>	<u>(845,515)</u>	<u>12,165,268</u>
Total Liabilities and Net Assets	<u>\$ 353,348</u>	<u>\$ 6,769,327</u>	<u>\$ 7,421,314</u>	<u>\$ 3,759,030</u>	<u>\$ 9,946,229</u>	<u>\$ 2,837,142</u>	<u>\$ (1,040,455)</u>	<u>\$ 30,045,935</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
REVENUES, WITHOUT DONOR RESTRICTION								
State Revenue:								
Local Control Funding Formula	\$ -	\$ 4,743,089	\$ 7,064,050	\$ 3,846,367	\$ -	\$ -	\$ -	\$ 15,653,506
Other State Revenue	-	716,217	1,129,301	924,638	-	-	-	2,770,156
Federal Revenue:								
Grants and Entitlements	-	1,832,318	1,699,971	1,112,507	-	-	-	4,644,796
Local Revenue:								
Contributions	200,000	11,142	88,489	35,771	-	-	-	335,402
Interest Income	-	-	5,763	-	-	-	-	5,763
Other Revenue	2,950,083	8,593	28,371	(352)	495,000	464,833	(3,906,857)	39,671
Net Assets Released from Restrictions	206,251	-	-	-	-	-	-	206,251
Total Revenues	<u>3,356,334</u>	<u>7,311,359</u>	<u>10,015,945</u>	<u>5,918,931</u>	<u>495,000</u>	<u>464,833</u>	<u>(3,906,857)</u>	<u>23,655,545</u>
EXPENSES								
Program Services	1,485,141	5,253,683	7,022,481	4,595,413	568,123	451,806	(2,238,754)	17,137,893
Management and General	1,677,000	1,371,877	2,295,800	719,858	536,942	93,887	(1,668,103)	5,027,261
Fundraising	-	1	6,782	-	-	-	-	6,783
Total Expenses	<u>3,162,141</u>	<u>6,625,561</u>	<u>9,325,063</u>	<u>5,315,271</u>	<u>1,105,065</u>	<u>545,693</u>	<u>(3,906,857)</u>	<u>22,171,937</u>
Change in Net Assets Without Donor Restriction	194,193	685,798	690,882	603,660	(610,065)	(80,860)	-	1,483,608
NET ASSETS WITH DONOR RESTRICTION								
Contributions	-	-	-	-	-	-	-	-
Other State Revenue	-	56,434	-	107,988	-	-	-	164,422
Net Assets Released from Restriction	(206,251)	-	-	-	-	-	-	(206,251)
Change in Net Assets With Donor Restrictions	<u>(206,251)</u>	<u>56,434</u>	<u>-</u>	<u>107,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,829)</u>
CHANGE IN NET ASSETS	(12,058)	742,232	690,882	711,648	(610,065)	(80,860)	-	1,441,779
Net Assets - Beginning of Year	<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>
NET ASSETS - END OF YEAR	<u>\$ 217,006</u>	<u>\$ 5,980,986</u>	<u>\$ 6,464,188</u>	<u>\$ 2,876,123</u>	<u>\$ (2,932,403)</u>	<u>\$ 404,883</u>	<u>\$ (845,515)</u>	<u>\$ 12,165,268</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2022**

	Home Office				Charter Middle School			
	Program Services	Management and General	Fundraising	Subtotal	Program Services	Management and General	Fundraising	Subtotal
Salaries	\$ 1,102,467	\$ 860,356	\$ -	\$ 1,962,823	\$ 2,681,738	\$ 366,156	\$ -	\$ 3,047,894
Pension Expense	171,441	69,727	-	241,168	388,941	1,718	-	390,659
Other Employee Benefits	56,024	43,720	-	99,744	316,937	43,274	-	360,211
Payroll Taxes	26,504	52,281	-	78,785	72,672	34,280	-	106,952
Legal Expenses	-	46,549	-	46,549	-	1,489	-	1,489
Accounting Expenses	-	33,547	-	33,547	-	-	-	-
Other Fees for Services	18,397	449,308	-	467,705	378,165	85,390	-	463,555
Advertising and Promotions	-	6,881	-	6,881	-	16,000	-	16,000
Office Expenses	41,239	20,652	-	61,891	37,853	70,284	-	108,137
Information Technology	-	36,783	-	36,783	-	11,479	-	11,479
Occupancy	253	782	-	1,035	235,618	33,753	-	269,371
Travel	34,769	-	-	34,769	24,906	-	-	24,906
Interest	-	-	-	-	-	-	-	-
Depreciation	13,648	-	-	13,648	20,009	-	-	20,009
Insurance	-	3,542	-	3,542	-	64,585	-	64,585
Other Expenses	358	52,872	-	53,230	401,002	25,729	1	426,732
Instructional Materials	20,041	-	-	20,041	104,807	-	-	104,807
Intra-Agency fees	-	-	-	-	547,807	617,740	-	1,165,547
District Oversight Fees	-	-	-	-	43,228	-	-	43,228
Total Expenses by Function	<u>\$ 1,485,141</u>	<u>\$ 1,677,000</u>	<u>\$ -</u>	<u>\$ 3,162,141</u>	<u>\$ 5,253,683</u>	<u>\$ 1,371,877</u>	<u>\$ 1</u>	<u>\$ 6,625,561</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2022**

	Charter High School				Charter Elementary School			
	Program Services	Management and General	Fundraising	Subtotal	Program Services	Management and General	Fundraising	Subtotal
Salaries	\$ 3,349,538	\$ 449,110	\$ -	\$ 3,798,648	\$ 2,289,437	\$ 261,551	\$ -	\$ 2,550,988
Pension Expense	477,045	2,371	-	479,416	288,161	2,611	-	290,772
Employee Benefits	383,505	51,421	-	434,926	173,314	19,800	-	193,114
Payroll Taxes	92,710	37,544	-	130,254	85,378	21,980	-	107,358
Legal Expenses	-	85	-	85	-	-	-	-
Accounting Expenses	-	-	-	-	-	-	-	-
Other Fees for Services	300,149	159,739	-	459,888	375,038	80,871	-	455,909
Advertising and Promotions	-	28,000	-	28,000	-	8,749	-	8,749
Office Expenses	336,314	118,561	-	454,875	180,159	89,105	-	269,264
Information Technology	-	21,429	-	21,429	-	9,247	-	9,247
Occupancy	540,806	95,234	-	636,040	455,450	55,639	-	511,089
Travel	43,960	-	-	43,960	28,545	-	-	28,545
Interest	-	-	-	-	-	2,549	-	2,549
Depreciation	80,601	-	-	80,601	16,696	-	-	16,696
Insurance	-	105,151	-	105,151	-	55,215	-	55,215
Other Expenses	356,643	371,847	6,782	735,272	481,937	23,668	-	505,605
Instructional Materials	235,385	-	-	235,385	108,638	-	-	108,638
Intra-Agency fees	758,482	855,308	-	1,613,790	78,813	88,873	-	167,686
District Oversight Fees	67,343	-	-	67,343	33,847	-	-	33,847
Total Expenses by Function	<u>\$ 7,022,481</u>	<u>\$ 2,295,800</u>	<u>\$ 6,782</u>	<u>\$ 9,325,063</u>	<u>\$ 4,595,413</u>	<u>\$ 719,858</u>	<u>\$ -</u>	<u>\$ 5,315,271</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
YEAR ENDED JUNE 30, 2022**

	Adams LLC			35th Street LLC			Eliminations	Total
	Program Services	Management and General	Subtotal	Program Services	Management and General	Subtotal		
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,360,353
Pension Expense	-	-	-	-	-	-	-	1,402,015
Employee Benefits	-	-	-	-	-	-	-	1,087,995
Payroll Taxes	-	-	-	-	-	-	-	423,349
Legal Expenses	-	-	-	-	-	-	-	48,123
Accounting Expenses	-	-	-	-	-	-	-	33,547
Other Fees for Services	-	14,500	14,500	-	-	-	-	1,861,557
Advertising and Promotions	-	-	-	-	-	-	-	59,630
Office Expenses	-	-	-	-	-	-	-	894,167
Information Technology	-	-	-	-	-	-	-	78,938
Occupancy	-	-	-	293,303	-	293,303	(959,834)	751,004
Travel	-	-	-	-	-	-	-	132,180
Interest	-	521,979	521,979	-	94,398	94,398	-	618,926
Depreciation	568,123	-	568,123	158,503	-	158,503	-	857,580
Insurance	-	-	-	-	-	-	-	228,493
Other Expenses	-	463	463	-	(511)	(511)	-	1,720,791
Instructional Materials	-	-	-	-	-	-	-	468,871
Intra-Agency fees	-	-	-	-	-	-	(2,947,023)	-
District Oversight Fees	-	-	-	-	-	-	-	144,418
Total Expenses by Function	\$ 568,123	\$ 536,942	\$ 1,105,065	\$ 451,806	\$ 93,887	\$ 545,693	\$ (3,906,857)	\$ 22,171,937

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022**

	Home Office	Charter Middle School	Charter High School	Charter Elementary School	Adams LLC	35th Street LLC	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Change in Net Assets	\$ (12,058)	\$ 742,232	\$ 690,882	\$ 711,648	\$ (610,065)	\$ (80,860)	\$ -	\$ 1,441,779
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:								
Depreciation Expense	13,648	20,009	80,601	16,696	568,123	158,503	-	857,580
Change in Operating Assets:								
Accounts Receivable	80	(597,282)	707,310	(285,112)	-	(43,038)	-	(218,042)
Intercompany Receivables	-	-	(76)	-	-	-	76	-
Prepaid Expenses and Other Assets	(37,992)	(25,138)	(27,286)	(36,738)	-	19,502	-	(107,652)
Change in Operating Liabilities:								
Accounts Payable and Accrued Liabilities	7,789	240,435	14,214	150,037	(19,749)	46,034	-	438,760
Intercompany Payables	-	-	-	-	41	35	(76)	-
Deferred Revenue	-	119,656	225,889	324,016	-	39,085	-	708,646
Net Cash Provided (Used) by Operating Activities	<u>(28,533)</u>	<u>499,912</u>	<u>1,691,534</u>	<u>880,547</u>	<u>(61,650)</u>	<u>139,261</u>	<u>-</u>	<u>3,121,071</u>
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of Property and Equipment	<u>(7,521)</u>	<u>(54,191)</u>	<u>(104,852)</u>	<u>(20,621)</u>	<u>-</u>	<u>(21,872)</u>	<u>-</u>	<u>(209,057)</u>
Net Cash Used by Investing Activities	<u>(7,521)</u>	<u>(54,191)</u>	<u>(104,852)</u>	<u>(20,621)</u>	<u>-</u>	<u>(21,872)</u>	<u>-</u>	<u>(209,057)</u>
CASH FLOWS FROM FINANCING ACTIVITIES								
Proceeds from Issuance of Notes Payable	-	-	-	-	-	23,071	-	23,071
Principal Payments on Notes Payable	-	-	(50,000)	(50,000)	-	(108,644)	-	(208,644)
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>(112,502)</u>	<u>-</u>	<u>(85,573)</u>	<u>-</u>	<u>(248,075)</u>
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	<u>(36,054)</u>	<u>445,721</u>	<u>1,536,682</u>	<u>747,424</u>	<u>(61,650)</u>	<u>31,816</u>	<u>-</u>	<u>2,663,939</u>
Cash, Cash Equivalents and Restricted Cash - Beginning of Year	<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>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - END OF YEAR	<u>\$ 234,964</u>	<u>\$ 3,089,780</u>	<u>\$ 4,161,785</u>	<u>\$ 1,478,125</u>	<u>\$ 317,048</u>	<u>\$ 111,417</u>	<u>\$ -</u>	<u>\$ 9,393,119</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION								
Cash Paid for Interest	<u>\$ 3,352</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,549</u>	<u>\$ 521,979</u>	<u>\$ 94,398</u>	<u>\$ -</u>	<u>\$ 622,278</u>
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION								
Cash and Cash Equivalents	\$ 234,964	\$ 3,089,780	\$ 4,161,785	\$ 1,478,125	\$ 93,271	\$ 111,417	\$ -	\$ 9,169,342
Restricted Cash and Cash Equivalents	-	-	-	-	223,777	-	-	223,777
Total Cash and Cash Equivalents	<u>\$ 234,964</u>	<u>\$ 3,089,780</u>	<u>\$ 4,161,785</u>	<u>\$ 1,478,125</u>	<u>\$ 317,048</u>	<u>\$ 111,417</u>	<u>\$ -</u>	<u>\$ 9,393,119</u>

See accompanying Notes to Supplementary Information

**STEM PREPARATORY SCHOOLS
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022**

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, 2022. 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. 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 SCHEDULE OF AVERAGE DAILY ATTENDANCE

Average daily attendance 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 charter schools. This schedule provides information regarding the attendance of students at various grade levels.

NOTE 5 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
NOTES TO SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2022**

NOTE 6 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
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 (STEM Prep), a nonprofit California public benefit corporation, which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, the related notes to the financial statements, and have issued our report thereon dated December 12, 2022.

Report on 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.

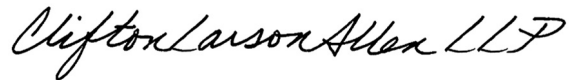
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on 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 12, 2022



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
Los Angeles, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited STEM Preparatory Schools, Inc.'s (STEM Prep) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of STEM Prep's major federal programs for the year ended June 30, 2022. STEM Prep's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, STEM Prep complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of STEM Prep and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of STEM Prep's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to STEM Prep's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on STEM Prep's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about STEM Prep's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding STEM Prep's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of STEM Prep's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 STEM Prep's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 12, 2022



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
STEM Preparatory Schools
Los Angeles, California

Opinion on State Compliance

We have audited STEM Preparatory Schools, Inc.'s (STEM Prep) compliance with the types of compliance requirements described in the *2021-2022 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, 2022. STEM Prep's State compliance requirements are identified in the table below.

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, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Our responsibilities under those standards and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of STEM Prep and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of STEM Prep's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to below occurred, whether due to fraud or error, and express an opinion on STEM Prep's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about STEM Prep's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding STEM Prep's compliance with the compliance requirements referred to below and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of STEM Prep's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel and which are described in the accompanying schedule of findings and questioned costs as item 2022-001. Our opinion on each state program is not modified with respect to this matter.

STEM Prep's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. STEM Prep's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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>
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not Applicable
After/Before School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not Applicable
Immunizations	Not Applicable
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Not Applicable
In Person Instruction Grant	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

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 *2021-2022 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 12, 2022

**STEM PREPARATORY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2022**

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

Assistance Listing Number(s)	Name of Federal Program or Cluster
84.425C	Governor’s Emergency Education Relief (GEER) Fund and ELO Grant GEER II
84.425D	ESSER, ESSER, II
84.425U	ESSER III

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

Auditee qualified as low-risk auditee? x yes _____ no

**STEM PREPARATORY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Section I – Summary of Auditors’ Results (Continued)

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

Section II – Financial Statement Findings

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

Section III – Findings and Questioned Costs – Major Federal Programs

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

Findings and Questioned Costs – State Compliance

2022-001 Nonclassroom-Based Instruction/ Independent Study 40000

**Crown Preparatory Academy (Charter Middle School) #1187
STEM Preparatory Elementary School (Charter Elementary School) #1925**

Criteria: Per Education Code section 51747(c), every written independent study agreement must contain signatures, no later than 30 days after the first day of independent study instruction or October 15, whichever comes later by the pupil, the pupil’s parent, legal guardian or caregiver, the certificated employee who was designated as having responsibility for the general supervision of the pupil’s independent study, and all other persons, if any, who had direct responsibility for providing assistance to the pupil.

**STEM PREPARATORY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2022**

Findings and Questioned Costs – State Compliance (Continued)

2022-001 Nonclassroom-Based Instruction/ Independent Study (Continued) 40000

Condition: During nonclassroom-based/independent study pupil testing we found that 1 pupil in sixth grade, 1 pupil in seventh grade, and 1 pupil in eighth grade at Crown Preparatory Academy did not sign the independent study agreement and 1 pupil in third grade at STEM Preparatory Elementary did not sign the independent study master agreement and ADA was claimed as generated through independent study for these pupils.

Effect: Crown Preparatory Academy and STEM Preparatory Elementary School are not in compliance with Education Code section 51747(c) and over-reported ADA by 1.60 and 0.39, respectively.

Cause: Return to in-person instruction from COVID complicated efforts to obtain all required signatures.

Questioned Costs: Decrease in apportionment for Crown Preparatory Academy of \$18,556 and a decrease in apportionment for STEM Preparatory Elementary School of \$4,810.

Repeat Finding: This is not a repeat finding.

Corrective Action Plan: STEM Prep currently offers 3 types of Independent Study: Long Term Independent Study, Traditional Independent Study (short term), and Quarantine Based Independent Study. Subsequent to this finding, STEM Prep has updated the master agreement to highlight the required signatures. Also implemented monitoring systems to ensure all agreements are completed accurately, including having parent and student signatures. Additionally, STEM Prep has assigned Karen Gonzalez, Network Operations Manager, to do internal audits of all Independent Study contracts to ensure they all have the required signatures.

**STEM PREPARATORY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2022**

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



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