STEM PREPARATORY ACADEMY

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2012

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CROSSLIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
STEM Preparatory Academy

We have audited the accompanying financial statements of the governmental activities and each major fund of STEM Preparatory Academy (the "School") as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of STEM Preparatory Academy as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STEM Preparatory Academy's financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and are not a required part of the financial statements. The schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate 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.

Crosslin + Associates, P.C.

Nashville, Tennessee
November 2, 2012

Our discussion and analysis of STEM Preparatory Academy's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2012. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The School's governmental activities total assets increased by $172,116 in 2012 or 136.7%, while total revenues for the School increased by $1,130,632 or 494.2%. The School's governmental activities total program costs for 2012 increased $704,732 or 510.4%. Overall, the School's 2012 change in net assets, $190,648, was $144,762 or 315.5% more than the prior year.

For the General Purpose School Fund there was a net change in fund balance of $124,208. The General Purpose School Fund - fund balance at fiscal year-end was $149,737.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of a series of financial statements, notes to those statements, required supplementary information, and supplementary information. The statements are organized so that the reader can understand the School as a whole and then proceed to a detailed look at specific financial activities of the School.

REPORTING THE SCHOOL AS A WHOLE

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the year's activities. The Statement of Net Assets and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 10.

The Statement of Net Assets reports the School's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The School's net asset balance at year-end represents available resources for future growth. The Statement of Activities reports the change in net assets as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. It provides the user a tool to assist in determining the direction of the School's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the School.

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 12. They provide detailed information about the School's most significant funds, not the School as a whole. Funds are established by the School as required to help manage money for particular purposes and compliance with various donor and grant provisions.

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school-wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Assets and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 13 and 15.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of $245,218. The School's net assets include $156,172 of cash and cash equivalents. All cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2012, the School had invested a total of $95,481 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment and leasehold improvements to the building. The School expects additional property and equipment investments in the 2012-2013 school year, as student enrollment maximizes at each grade level. With the additional students, there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate increased student enrollment grades 5 through 7; to accommodate all grades, the School is seeking an alternate location as well as considering the capital improvements required to house all grades at its full capacity. Additional information on property and equipment is located in the notes to the financial statements.

The School is currently renting educational space from a private party. The current lease term ends August 1, 2013, with two consecutive one-year renewal terms. Management intends to seek a long-term lease or purchase space for the School. The School has no debt as of the end of the fiscal year.

A schedule of the School's net assets as of June 30, 2012 and 2011, is as follows:

	2012	2011
Current assets	$202,576	$ 96,900
Capital assets	95,481	29,041
Total assets	298,057	125,941
Current liabilities	52,839	71,371
Net assets:		
Invested in capital assets	95,481	29,041
Restricted - nonexpendable	5,714	180
Unrestricted	144,023	25,349
Total net assets	$245,218	$ 54,570

The School's total net assets increased $190,648 during the 2012 fiscal year. The increase in the School's net assets indicates that the School had more incoming revenues than outgoing expenses during the year.

Total revenues generated from government grants, governmental funds, and donations were $1,338,683 during the 2012 fiscal year which is $1,109,883 or 485.1% increase over 2011. Contributions from individuals and organizations were $10,334 higher than 2011. At this time, the School is focusing on government grants and funding as their primary means of revenue, until they are more established in the community, and have built up potential donors. In the future, the School intends to solicit donors and build up contribution income. In addition, the school realized an increase in federal funding as compared to 2011 as a result of being awarded four additional grants during the year, including Title I and the USDA School Lunch Program, which fund the School's growth plans. Finally, District funding was awarded in 2012 with the School's first academic year. The main driver of this award is student enrollment. STEM focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to start their first fifth grade class with an enrollment of 114.

Total expenses were $1,168,784 during the 2012 fiscal year, which was $985,870 higher than 2011. The majority of this increase is directly related to hiring of a full staff of teachers, instructional expenses related to the first academic year, and occupancy costs for the building the School utilizes.

The increase in net assets of $190,648 is $144,762 higher than in 2011. While operating expenses increased significantly in 2012 to fund the start of the academic year, increases in revenue from district funding and federal grants offset this increase in expense.

A schedule of the School's revenue and expenses for the years ended June 30, 2012 and 2011, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	2012	2011
Revenues		
Contributions	$ 14,134	$ 3,800
District funding	863,262	-
Federal and state grants	461,287	225,000
Other	20,749	-
Total revenues	1,359,432	228,800
Expenses		
Instructional	122,071	21,260
Occupancy	168,600	37,297
Office	24,489	2,076
Organizational development	17,877	20,084
Other	3,275	-
Service fees	48,117	19,297
Employee compensation	647,892	79,330
Staff development	7,568	1,214
Transportation	107,281	1,825
Depreciation	21,614	531
Total expenses	1,168,784	182,914
Change in net assets	$ 190,648	$ 45,886

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 12, report a combined fund balance of $149,737. The majority of the School's total funds are in the General Purpose School Fund, which is the chief operating fund of the School. The School has one other major fund consisting of the Federal and State Grants Fund.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the year-ended June 30, 2012, the differences are minor and consist of capital assets, which are not reported in the School's funds.

SCHOOL MISSION AND MODEL

STEM Preparatory Academy (STEM) opened in July 2011 to its inaugural class of fifth grade students and will continue to add a grade each year thereafter, reaching full capacity in 2014-2015 with approximately 400 students in grades 5 through 8. The School's mission is to provide a college preparatory education with an integrated focus on science, technology, engineering and mathematics. STEM aims to increase the number of underrepresented students who (1) successfully graduate from the most competitive high schools and universities in the country, and (2) become the leaders and innovators of the 21st Century.

STEM was founded upon three core beliefs: 1) every child deserves a rigorous, college preparatory education delivered by highly effective teachers, 2) a culture of accountability and high expectations develops learners and leaders, and 3) excellent schools are deeply and broadly tied to the communities they serve. The STEM model is designed to ensure students master basic skills in literacy and mathematics; strengthen critical-thinking skills; rigorously prepare for high school and college; and engage and lead peers in learning and active citizenship.

STEM engages students in inquiry based learning activities that focus on solving real world problems. These "capstone projects" require students to think critically, write, research, present and build 21st Century skills that will enable them to access and persist in the jobs of the future. In addition, STEM engages students in the arts and service learning, creating well-rounded students who are socially responsible and will contribute to their community.

RESULTS

In its first year of operation, STEM *outperformed* their peers in matched schools both locally and statewide in *all* subject areas. The data overview below highlights STEM results on the 2012 Tennessee Comprehensive Assessment Program (TCAP) relative to its peers.

Table 1. TCAP Performance Comparison to Matched Schools.[1]

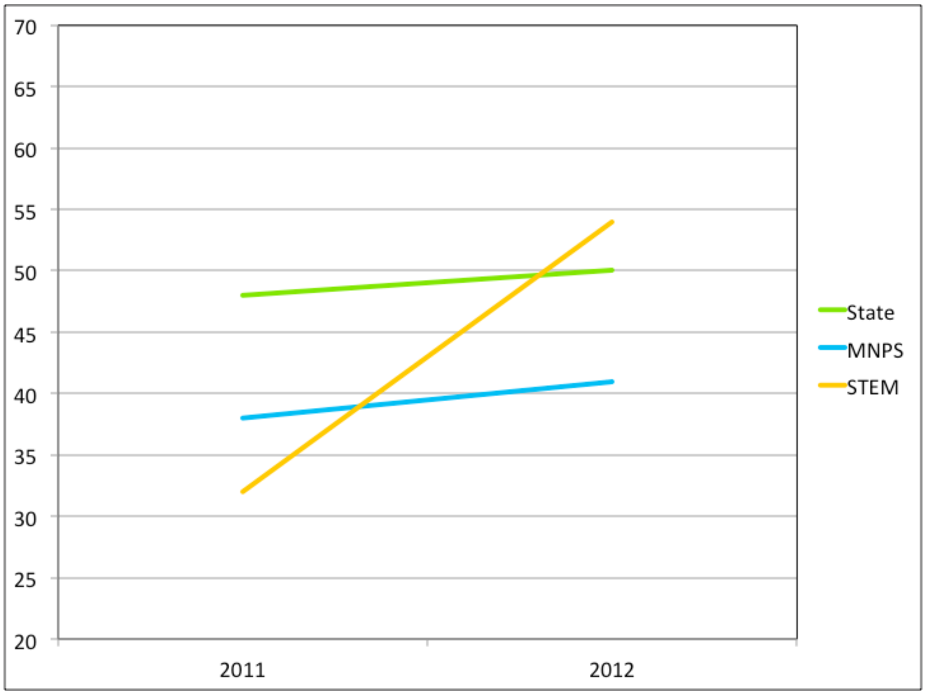
	STEM (2012)	District (2012)	Wright (2011)	Cameron (2011)	KIPP (2011)	LEAD (2011)
Science	**67**					
Math	**64**	39	24	21	24	30
Reading/ELA	**52**	41	36	36	36	37
Social Studies	**96**					

Among all charter schools in the state, STEM ranked *3rd* in reading growth and *5th* in math growth as measured by the Tennessee Value Added Assessment System (TVAAS) according to a study performed by Stanford University's Center for Research on Education Outcomes (CREDO).[2] The graphs on the next page display the rate of student growth compared to the growth achieved by the district and state.

1 At the time of this report, the TN Department of Education has not yet released the 2012 school-level data to the public.

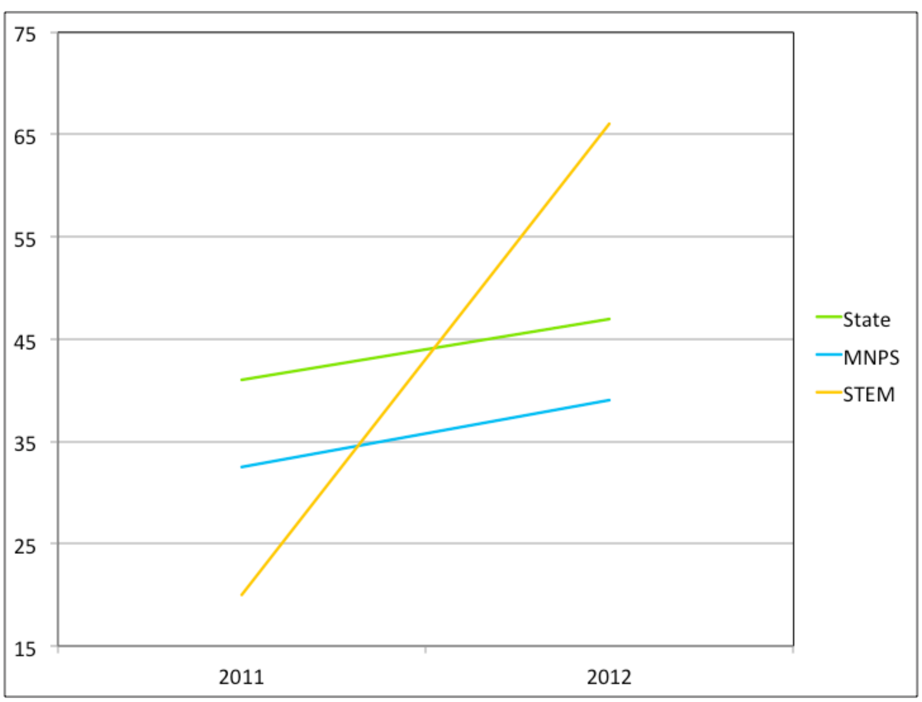
2 Effect size data may be obtained through the Achievement School District's report, published August 2012. <http://www.achievementschooldistrict.org/wp-content/uploads/2012/08/Effect-Size_TN-Data-2011-20122.pdf>

Graph 1. Reading Growth Comparison to District and State.



As Graph 1 indicates, STEM demonstrated significant growth in reading from 32% to 53% proficiency. This rate of growth far exceeded the district and state averages.

Graph 2. Mathematics Growth Comparison to District and State.



Similar to the significant reading growth, STEM students also performed exceedingly well in mathematics. The rate of growth far exceeded both the district and state with STEM students moving from 20% to 64% proficiency in one academic year.

AWARDS

In its first year of operation, STEM received two awards from the Tennessee Charter School Association in May 2012: Middle School Teacher of the Year and Innovative School of the Year Finalist. In October 2012, STEM founder received the Educator of the Year Award from the Nashville Technology Council.

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal Year 2013 enrollment is projected to be over 200 students. The school anticipates an increase in total Basic Education Program (BEP) funding, as a result of increased enrollment across all grades. Additionally, the school expects per pupil BEP funding to remain flat for the 2012-13 school year. For fiscal year 2013, the School expects to raise approximately $25,000 in non-government funds. STEM believes a continued focus on cultivating the existing donor base, and a Board of Directors committed to hitting fundraising targets will help the school reach this goal.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. For questions about this report or additional financial information, contact the School's Executive Director, Kristin McGraner, at 3748 Nolensville Pike, Nashville, TN 37211, by telephone at (615) 921-2200 or email kmcgraner@stemprepacademy.org.

STEM PREPARATORY ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 156,172
Receivables	27,385
Other current assets	19,019
Capital assets, net	95,481
Total assets	298,057
LIABILITIES	
Accounts payable	20,805
Accrued expenses	32,034
Total liabilities	52,839
NET ASSETS	
Invested in capital assets	95,481
Restricted - nonexpendable	5,714
Unrestricted	144,023
Total net assets	$ 245,218

See notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

GOVERNMENTAL ACTIVITIES:	Total	Functions: Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	$ 122,071	$ 122,071	$ -	$ -
Occupancy	168,600	134,880	33,720	-
Office	24,489	-	24,489	-
Organizational development	17,877	-	13,402	4,475
Other	193	193	-	-
Professional services and fees	48,117	10,200	37,917	-
Employee compensation	647,892	443,523	204,369	-
Staff development	7,568	7,379	189	-
Transportation	107,281	107,281	-	-
Depreciation	21,614	17,291	4,323	-
Interest	3,082	-	3,082	-
Total expenses	1,168,784	842,818	321,491	4,475
PROGRAM REVENUES				
Operating grants and contributions	461,287	461,287	-	-
Capital grants and contributions	16,000	16,000	-	-
Net program expenses	691,497	$ 365,531	$ 321,491	$ 4,475
GENERAL REVENUES				
Contributions	14,134			
District funding	847,262			
Other	20,749			
Total general revenues	882,145			
CHANGE IN NET ASSETS	190,648			
NET ASSETS, June 30, 2011	54,570			
NET ASSETS, June 30, 2012	$ 245,218			

See notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 156,172	$ -	$ 156,172
Receivables	-	27,385	27,385
Due from other funds	27,385	-	27,385
Other current assets	19,019	-	19,019
Total assets	$ 202,576	$ 27,385	$ 229,961
LIABILITIES			
Accounts payable	$ 20,805	$ -	$ 20,805
Accrued expenditures	32,034	-	32,034
Due to other funds	-	27,385	27,385
Total liabilities	52,839	27,385	80,224
FUND BALANCES			
Nonspendable	5,714	-	5,714
Unassigned	144,023	-	144,023
Total fund balances	149,737	-	149,737
Total liabilities and fund balances	$ 202,576	$ 27,385	$ 229,961

See notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2012

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET ASSETS:

Total governmental fund balances	$ 149,737
Capital assets not reported	95,481
Net assets of governmental activities in the statement of net assets	$ 245,218

See notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	$ 14,134	$ -	$ 14,134
District funding	847,262	-	847,262
Federal and state grants	-	477,287	477,287
Other income	20,749	-	20,749
Total revenues	882,145	477,287	1,359,432
EXPENDITURES			
Current:			
Instructional	54,139	110,592	164,731
Occupancy	145,216	53,091	198,307
Office	24,804	15,372	40,176
Organizational development	17,642	235	17,877
Other	193	-	193
Professional services and fees	22,603	25,514	48,117
Employee compensation	383,262	264,630	647,892
Staff development	379	7,189	7,568
Transportation	106,617	664	107,281
Debt service:			
Interest	3,082	-	3,082
Total expenditures	757,937	477,287	1,235,224
NET CHANGE IN FUND BALANCES	124,208	-	124,208
FUND BALANCES, June 30, 2011	25,529	-	25,529
FUND BALANCES, June 30, 2012	$ 149,737	$ -	$ 149,737

See notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - CONTINUED
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

RECONCILIATION OF NET CHANGE IN FUND BALANCES TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF ACTIVITIES:

Net change in fund balances as reported in the governmental funds statements	$ 124,208
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	88,054
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	(21,614)
Change in net assets of governmental activities	$ 190,648

See notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

STEM Preparatory Academy (the School) was incorporated March 22, 2010, as a Tennessee nonprofit corporation. Pursuant to Section 6(b)(1)(a) of the Tennessee Public Charter School Act of 2002 (the Act), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state's public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County on November 23, 2010, to operate a charter school in Nashville, Tennessee. The School began classes in July 2011 with a fifth grade class and will add an additional grade each year culminating with the addition of an eighth grade in the 2014-2015 fiscal year.

Basic Financial Statements

School-wide financial statements

The school-wide financial statements focus on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. In the school-wide statement of net assets, amounts are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as any long-term debt and obligations. The statement of net assets presents the financial condition of the School at year-end.

The School's net assets are reported in three categories – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and then unrestricted resources as they are needed. The School does not allocate indirect costs between functions.

The school-wide statement of activities reports both the gross and net cost of the School's functions. The functions are also supported by general government revenues (general revenues are primarily made up of district BEP (Basic Education Program) funding and donations to the General Purpose School Fund). The statement of activities reduces gross expenses by related function revenues, including operating grants and contributions and capital grants and contributions. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures.

The emphasis in fund financial statements is on the major funds. The School has no nonmajor funds for the year ended June 30, 2012. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The School reports the following major governmental funds:

The General Purpose School Fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The Federal and State Grants Special Revenue Fund is used to account for the receipt and disbursement of federal and state grants where unused balances, if any, are returned to the grantor at the close of specified project periods.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The School classifies governmental fund balances as nonspendable, restricted, committed, assigned and unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the School's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the School's policy to spend funds in the following order: committed, then assigned, and lastly unassigned funds. The classifications of fund balances are defined as follows:

Nonspendable - This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted - This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Committed - This classification consists of fund balances that can only be used for specific purposes established by formal action of the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

Assigned - This classification consists of all fund balances that are not in the General Purpose School Fund or classified as nonspendable, restricted or committed. In addition, General Purpose School Fund balances that the School intends to use for specific purposes are also classified as assigned. The School gives the authority to assign amounts to specific purposes to the School's CFO and personnel under the supervision of the CFO tasked with financial recording responsibilities.

Unassigned - This classification consists of all fund balances in the General Purpose School Fund that are not reported as nonspendable, restricted, committed or assigned.

Basis of Accounting

The School's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

The School is considered a special purpose governmental entity engaged in governmental type activities and is not a component unit of another governmental entity. Therefore, the financial statements are prepared in the same manner as general purpose governments.

The School's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The School's primary activities are all considered to be governmental activities and are classified as such in the school-wide and fund financial statements.

The school-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental funds financial statements are presented on the modified accrual basis of accounting. Revenues under the modified accrual basis are recognized when measurable and available and expenditures are recognized when the related liability is incurred. "Available" means collectible within the current period or within 60 days after the end of the year.

Since the governmental funds financial statements are presented on a different basis than the school-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the school-wide financial statements.

Cash and Cash Equivalents

The School considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Receivables

Receivables represent amounts due from grants or funding which have been approved but not received. All receivables are reported at estimated collectible amounts. Receivables that will not be collected within the available period have been reported as deferred revenue.

Capital Assets

Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures, which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years, or over the term of the lease for leasehold improvements, if less. The School follows the practice of capitalizing all expenditures for property and equipment items over $1,000.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the respective governmental fund upon acquisition.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

The School is a not-for-profit school that is exempt from federal income taxes under the Internal Revenue Code, classified by the Internal Revenue Service as other than a private foundation and is similarly exempt from state income taxes. The School accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the School include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the School has determined that such tax positions do not result in an uncertainty requiring recognition.

Estimates and Uncertainties

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The School receives awards and financial assistance through state and private agencies. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Purpose School Fund or Federal and State Grants Fund. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Interfund Balances

Transactions which constitute reimbursement of expenditures initially made from a fund, which are properly applicable to another fund, are recorded as expenditures, as appropriate, in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

B. CAPITAL ASSETS

Capital assets activity for governmental activities for the year was as follows:

	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Office equipment	$ 14,206	$ 18,868	$ -	$ 33,074
Furniture and fixtures	4,875	3,524	-	8,399
Computer equipment	10,491	35,955	-	46,446
Leasehold improvements	-	29,707	-	29,707
Subtotal	29,572	88,054	-	117,626
Accumulated depreciation	(531)	SCHD.1. T.3	-	(22,145)
Capital assets, net	$ 29,041	$ 66,440	$ -	$ 95,481

Depreciation was charged to governmental activities as follows:

Student instruction and services	$17,291
Administration	4,323
Fundraising	-
	$21,614

C. LINE-OF-CREDIT

The School has a $150,000 line-of-credit with a bank, which expired July 11, 2012. The line-of-credit was extended to July 2013 subsequent to year-end. As of June 30, 2012, there were no outstanding amounts under the line.

D. LEASING EXPENSES

The facilities used to provide educational services are provided under a two-year lease arrangement from a private party that expires August 1, 2013. The arrangement requires the School to pay rent in monthly installments of $7,445 through May 2013, and increasing to $7,668 thereafter. Under the terms of the lease, minimum required lease payments are as follows:

Year Ending June 30,	Amount
2013	$89,553
2014	7,668
	$97,221

E. FUND BALANCES

The General Purpose School Fund includes fund balance amounts presented as nonspendable as they are not in spendable form.

F. CONCENTRATIONS

The School received 64% of its funding for operations from MNPS based on the State of Tennessee's Basic Education Program (BEP). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2012, was $863,262. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

Per the School's charter agreement, enrollment in the School is open to any student within the MNPS System who would otherwise attend a school failing to make adequate yearly progress, as defined by the State Department of Education in compliance with the U.S. Department of Education guidelines. The School may only enroll students in grades five through eight.

G. RETIREMENT PLANS

Teacher Plan Description

The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty. Participants joining the plan on or after July 1, 1979, are vested after five years of service. Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index

G. RETIREMENT PLANS - Continued

(CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent. TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Funding Policy

Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools, which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2012, was 9.05% of annual covered payroll.

Non-Teacher Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Participants are vested after five years of service. No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at www.nashville.org/finance/financial_reports.asp.

Funding Policy

The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2012, was 15.416% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employee. The School's expense, related to both plans for the years ended June 30, 2012, 2011 and 2010, totaled $38,630, $975 and $0, respectively.

H. COMMITMENTS

In July 2011, the School entered into an agreement with a transportation company to operate bus routes to and from the School campus, including providing drivers, buses, maintenance of equipment, and route services. Fees under the agreement call for a base contract rate of $256 per route plus $0.20 per mile up to a maximum of 120 miles per route. For each of the second through fifth year of the contract, the base rate increases 3% over the previous year's base rate. The five year contract expires on June 30, 2016, with the option to renew for an unlimited one year period each year.

SUPPLEMENTARY INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

Program Name	CFDA Number	Contract/ Grant Number	Balance July 1, 2011 (Receivable) Payable
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education			
National School Lunch Program	10.555	N/A	$ -
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Charter School Programs (CSP) Planning and Initial Implementation Grant	84.282B	N/A	-
Title I, Part A Cluster Title I Grants to Local Educational Agencies	84.010	N/A	-
Special Education Cluster (IDEA) Special Education - Grants To States	84.027	N/A	-
			$ -

Note: The schedule of expenditures of federal awards includes the federal grant activity of the School. The information in this schedule is presented in accordance with the requirements of the State of Tennessee.

Receipts	Expenditures	Balance June 30, 2012 (Receivable) Payable
$ 65,004	$ 65,004	$ -
250,000	250,000	-
101,047	128,432	(27,385)
17,851	17,851	-
$433,902	$461,287	$(27,385)

See independent auditors' report.

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2012

Grantor	State Contract Number	Balance July 1, 2011	Receipts	Expenditures	Balance June 30, 2012
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	$ -	$ 16,000	$ 16,000	$ -
Passed through MNPS					
Basic Education Program	N/A	-	847,262	847,262	-
		$ -	$863,262	$863,262	$ -

Note: The schedule of expenditures of state financial assistance includes the state grant activity of the School. The information in this schedule is presented in accordance with the requirements of the State of Tennessee.

See independent auditors' report.

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CERTIFIED PUBLIC ACCOUNTANTS

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*

To the Board of Directors
STEM Preparatory Academy

We have audited the financial statements of the governmental activities and each major fund of STEM Preparatory Academy (the "School") as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 2, 2012. 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.

Internal Control Over Financial Reporting

Management of STEM Preparatory Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under G*overnment Auditing Standards*.

We also noted certain matters that we reported to the School's management in a separate letter dated November 2, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the School, pass-through entities, and the Comptroller of the Treasury, State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin + Associates, P.C.

Nashville, Tennessee
November 2, 2012