

**STEM PREPARATORY ACADEMY**  
**AUDITED FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**Operating Tennessee Public Charter Schools:**  
**STEM PREPARATORY ACADEMY MIDDLE SCHOOL**  
**STEM PREPARATORY ACADEMY HIGH SCHOOL**

# STEM PREPARATORY ACADEMY

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STEM PREPARATORY ACADEMY  
INTRODUCTORY SECTION

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Dr. Kristin McGraner	Founder and Executive Director
Charlie Williams	Director of Finance and Operations



## Independent Auditor's Report

To the Board of Directors  
STEM Preparatory Academy  
Nashville, Tennessee

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

We have audited the accompanying financial statements of the governmental activities and each major fund of STEM Preparatory Academy, operating Tennessee Public Charter Schools STEM Preparatory Academy Middle School and STEM Preparatory Academy High School, (collectively "STEM") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express 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 from material misstatement.

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



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

### ***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, 2020, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11 and the schedule of proportionate share of the net pension liability (asset) and schedule of employer contributions on pages 48 - 50 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 considered 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.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STEM Preparatory Academy's basic financial statements. The introductory section on page 1, the schedule of changes in long-term debt by individual issue on page 52, the schedule of assets, liabilities and fund balances by school and schedule of revenues, expenditures and changes in fund balances by school on pages 53 - 57 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee, and is also not a required part of the basic financial statements.



The schedule of changes in long-term debt by individual issue, the schedule of assets, liabilities, and fund balances by school, the schedule of revenues, expenditures and changes in fund balances by school and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied to the audit of the basic financial statements, and, accordingly, we do not express an opinion or provide assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2021, on our consideration of STEM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEM's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STEM's internal control over financial reporting and compliance.

Nashville, Tennessee  
January 25, 2021

## STEM PREPARATORY ACADEMY MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the annual financial performance of STEM Preparatory Academy, operating Tennessee Public Charter Schools STEM Preparatory Academy Middle School and STEM Preparatory Academy High School ("STEM"), provides an overview of the organization's financial activities for the fiscal year ended June 30, 2020 as compared to 2019. This section should be read in conjunction with the financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

STEM's governmental activities total assets and deferred outflows of resources increased by \$1,090,620 in 2020 or 11%, while total liabilities and deferred inflows of resources increased \$1,259,274 or 17%. Total revenues for STEM increased by \$83,403 or 0.7%. STEM's governmental activities total program costs for 2020 increased \$472,732 or 6%. Overall, STEM's 2020 net position decreased \$168,654. The decrease was the result of a shortfall in per pupil BEP funding related to the broader economic impact of COVID-19 in Nashville and throughout the state of Tennessee.

### **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 STEM as a whole and then proceed to a detailed look at specific financial activities of STEM.

### **REPORTING STEM AS A WHOLE**

In general, users of these financial statements want to know if STEM is in a better or worse financial position as a result of the year's activities. The Statement of Net Position and Statement of Activities report information about STEM as a whole and about STEM'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 12.

The Statement of Net Position reports STEM's net position (total assets plus deferred outflows of resources less total liabilities less deferred inflows of resources). Private sector entities would report retained earnings. STEM's net position balance at year-end represents available resources for future growth. The Statement of Activities reports the change in net position 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 STEM'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 STEM.

STEM PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

STEM's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 14. The statements provide detailed information about STEM's most significant funds, not the organization as a whole. Funds are established by STEM as required to help manage money for particular purposes and compliance with various donor and grant provisions.

STEM'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 government-wide financial statements to report on STEM as a whole. The relationship between governmental activities, as reported in the Statement of Net Position 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 15 and 17.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

STEM's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year, resulting in net position of \$2,268,563. STEM's net position includes \$1,956,636 of cash and cash equivalents. All cash is available to meet STEM's ongoing operating activities and growth strategy.

As of June 30, 2020, STEM had invested a total of \$6,998,397 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment, school buses, a modular building, and leasehold improvements to the leased buildings.

In August 2013 management secured a long-term lease with the Metropolitan Government of Nashville and Davidson County ("Metro"), which includes considerations for capital improvements. The agreement was amended in July 2014 to include additional properties to be leased by STEM. STEM also secured construction loans to fund improvements to the schools. In September 2019, STEM consolidated and refinanced outstanding construction loans into a single loan. As of June 30, 2020, STEM has an outstanding principal balance of \$3,709,271 on the loan. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. During fiscal year 2019, STEM entered into two long-term capital lease agreements with a bank for the use of 17 school buses. Aggregate monthly lease payments on the school bus agreements total \$21,201. Additional information on the lease, construction loan, and property and equipment are located in the notes to the financial statements.



STEM PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

A schedule of STEM's net position as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Current assets	\$ 2,792,413	\$ 1,355,262
Noncurrent assets	<u>7,605,657</u>	<u>7,859,282</u>
Total assets	<u>10,398,070</u>	<u>9,214,544</u>
Deferred outflows of resources	<u>491,666</u>	<u>584,572</u>
Current liabilities	1,777,088	1,725,911
Noncurrent liabilities	<u>5,685,297</u>	<u>4,439,031</u>
Total liabilities	<u>7,462,385</u>	<u>6,164,942</u>
Deferred inflows of resources	<u>1,158,788</u>	<u>1,196,957</u>
Net position:		
Net investment in capital assets	1,838,493	2,393,795
Restricted	133,640	66,685
Unrestricted	<u>296,430</u>	<u>( 23,263)</u>
Total net position	<u>\$ 2,268,563</u>	<u>\$ 2,437,217</u>

STEM had deferred inflows of \$245,545 for future rent, \$365,000 for a tenant improvement reimbursement, and \$548,243 related to pensions at June 30, 2020. Deferred outflows totaling \$491,666 are related to pensions.

Total revenues generated from government grants, governmental funds, and donations were \$11,629,339 during the 2020 fiscal year which is a \$116,227 or 1% increase over 2019. Total expenses were \$11,910,866 during the 2020 fiscal year, which was \$289,467 higher than 2019. The decrease in net position was the result of a shortfall in per pupil BEP funding related to the broader economic impact of COVID-19 in Nashville and throughout the state of Tennessee. The funding shortfall became apparent late in the year and STEM went to great lengths to cut expenses in order to mitigate its impact.

STEM PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

A schedule of STEM's revenue and expenses for the years ended June 30, 2020 and 2019, is as follows. The schedule is for the organization as a whole, not for the governmental funds.

	<u>2020</u>	<u>2019</u>
Revenues		
Contributions	\$ 248,435	\$ 330,639
District funding	10,539,645	10,221,397
Federal and state grants	841,259	961,076
Other	<u>112,873</u>	<u>145,697</u>
Total revenues	<u>11,742,212</u>	<u>11,658,809</u>
Expenses		
Instructional	126,726	312,746
Occupancy	877,679	904,949
Office	217,235	213,032
Organizational development	54,961	78,951
Other	120,739	189,162
Service fees	969,666	1,068,843
Employee compensation	7,204,677	6,501,250
Staff development	87,978	104,032
Transportation	911,026	981,982
Interest	272,002	267,973
Depreciation	<u>1,068,177</u>	<u>998,480</u>
Total expenses	<u>11,910,866</u>	<u>11,621,400</u>
Change in net position	<u>\$ ( 168,654)</u>	<u>\$ 37,409</u>

**FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS**

STEM's funds, as presented on the Balance Sheet on page 14, report a combined fund balance of \$2,345,286. All of STEM's total funds are in the General Purpose School Fund, which is the chief operating fund of the organization. STEM has two other major funds consisting of the Federal and State Grants Fund and the Restricted Contribution Fund.

Due to the different basis of accounting, there is a difference between the amounts reported under STEM's funds and the amounts reported as government-wide. For the year-ended June 30, 2020, the differences consist of capital assets, long-term debt, deferred rent, tenant improvement allowances, and pensions which are not reported in STEM's funds.

STEM PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

## **SCHOOL MISSION AND MODEL**

STEM Preparatory Academy provides a college preparatory education with an integrated focus on science, technology, engineering and mathematics (STEM). In serving over 1,000 students within our two schools, STEM Prep Middle (5-8) and STEM Prep High (9-12), we aim 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 21<sup>st</sup> Century. Our vision is to become a national model of STEM learning and excellence in instructional effectiveness. We aim to become Nashville's premier public school and first choice for families in South Nashville.

STEM Preparatory Academy 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 and knowledge in the STEM content areas; rigorously prepare for high school and college; and engage and lead peers in learning and active citizenship. Moreover, the cornerstone of the STEM academic model is inquiry-based instruction and project-based learning through a capstone project progression. These 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, the school engages students in the arts and service learning, creating well-rounded students who are socially responsible and will contribute to their community.

STEM's student body is among the most diverse in the state of Tennessee. Families originate from all corners of the globe, speaking over twenty different languages and adding incalculable richness to the educational experience of our students. Moreover, the school serves a higher concentration of economically disadvantaged students and English Language Learners than our peers across the city and the state. Approximately 90% of STEM students qualify for free or reduced-price meals, while 80% have been classified as English Learners during their academic career.

Since opening its doors in July 2011, STEM has been honored with numerous awards for outstanding student and teacher performance, including: Tennessee Department of Education Reward School, **Nashville Public Education Foundation's Inspiring Innovator Award, Community Advocate of the Year, Middle School Teacher of the Year, Innovative School of the Year**, and **Tech Educator of the Year**.

STEM PREPARATORY ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

**Nashville Newcomer Academy**

In a first-of-its-kind partnership, in 2016 STEM launched The Nashville Newcomer Academy (NNA) with Metropolitan Nashville Public Schools and the Mayor's Office to serve the youngest New Americans with the most urgent needs. The partnership is designed to address the unique needs of English Learners, specifically our city's newcomer students, through direct service delivery. STEM has served approximately 200 newcomer students through the NNA program since its inception. While our city's current EL interventions and newcomer services are robust and demonstrate effectiveness, the newcomer population continues to grow exponentially year over year and additional capacity is required to ensure EL students achieve significant gains and advance in the college and career trajectory.

**STEM Prep High - Class of 2020**

In May 2020, STEM graduated its second high school class, comprised predominantly of students who have been continuously enrolled at STEM since middle school. The graduating class of 97 students earned approximately \$5 million in college scholarships and 100 percent of graduates enrolled in post-secondary institutions. To support equitable access to college among our DACA students, STEM secured philanthropy to fund four years of college tuition for each DACA student.

Further, through STEM's dual credit partnership, the graduating class earned over 150 college credits. Students enrolled in STEM's Health Sciences Pathway completed requisite coursework and practice, per the Tennessee Board of Health and the Department of Education, for the Certified Medical Assistant (CMA) license.

**Student and Family Counseling Program**

Through the school's dynamic counseling program, STEM seeks to provide middle and high school students with the counseling services their urgent needs demand, and in so doing, reduce the barriers to learning and achievement. The counseling program is designed to achieve the following objectives born from STEM's current work and vision for comprehensive services to all children:

1. Raise student achievement by addressing non-academic barriers to learning and development;
2. Strengthen family engagement among the child and school through holistic student and family services and positive social networks;
3. Measure student and family outcomes, identifying the program features with the most impact on student achievement, family engagement and stability.

In sum, STEM aims to address the mental health and emotional needs our students and families that pose material challenges to daily classroom learning. In 2019-2020, the impact of the counseling program was broad and deep, providing support to hundreds of families with a wide variety of needs. In total, the mental health team conducted 1,200 hours of counseling, as summarized on the next page.

STEM PREPARATORY ACADEMY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) – Continued

Service type	Individuals Served	Number of sessions	Approx. hours
Crisis intervention	191	471	353
Long-term counseling	77	842	842
Workshops	33	2	4
<b>Total</b>	<b>301</b>	<b>1,315</b>	<b>1,199</b>

**COVID-19 Response**

In March 2020, STEM transitioned from its traditional on-campus school model to a remote learning model, in response to the rapid spread of COVID-19 throughout the Nashville community. This sudden transition, along with the partial shutdown of the local economy, presented severe challenges to all members of the STEM community. Many STEM parents found themselves unemployed and in rapidly deteriorating financial circumstances. Additionally, most students did not have personal access to the technology required to participate in remote learning. In response to these emergent needs and in a determined effort to minimize student learning loss, STEM staff provided the following:

- Distribution of nearly 600 student laptops and WiFi hotspots
- Over 160,000 hours of remote teaching
- Over 50,000 individual staff phone calls to check-in with our students every day of closure
- Free meals to more than 1,200 students and family members
- Over 300 hours of remote student mental health services

Furthermore, STEM leadership continues to plan for the eventual return of students to campus. This comprehensive effort includes additional technology purchases, facility air-quality system upgrades, reconstituting classrooms to allow for social distancing, enhanced cleaning protocols, and purchases of large quantities of PPE.

**STUDENT ENROLLMENT FACTORS AND NEXT YEAR’S BUDGET**

Fiscal year 2021 enrollment is projected to be over 520 students in the middle school (including the Newcomer Academy) and 500 students in the high school. Additionally, fiscal year 2021 will represent the fifth year of operations for Nashville Newcomer Academy. The school expects per pupil BEP funding to remain flat for the 2020-21 school year. Additionally, STEM is preparing for numerous scenarios pertaining to COVID-19 related school closures. Management anticipates remaining in remote-learning mode for a significant portion of the 2021 school year.

**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 1162 Foster Ave, Nashville, TN 37210, by telephone at (615) 921-2200 or email [kmcgraner@stemprepacademy.org](mailto:kmcgraner@stemprepacademy.org).

STEM PREPARATORY ACADEMY  
STATEMENT OF NET POSITION  
JUNE 30, 2020

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,956,636
Accounts receivable	755,818
Other current assets	79,959
Capital assets, net	6,998,397
Net pension asset	473,620
Restricted Asset:	
TCRS Stabilization Reserve Trust	<u>133,640</u>
 Total assets	 <u>10,398,070</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	<u>491,666</u>
 <b>LIABILITIES</b>	
Accounts payable	368,194
Accrued expenses	212,573
Line of credit	100,000
Long-term debt due within one year	1,196,321
Long-term debt due in more than one year	5,349,751
Net pension liability	<u>235,546</u>
 Total liabilities	 7,462,385
 <b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred rent	245,545
Tenant improvement allowance	365,000
Pensions	<u>548,243</u>
 Total deferred inflows of resources	 <u>1,158,788</u>
 <b>NET POSITION</b>	
Net investment in capital assets	1,838,493
Restricted	133,640
Unrestricted	<u>296,430</u>
Total net position	<u><u>\$ 2,268,563</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
<b>EXPENSES</b>				
Instructional	\$ 126,726	\$ 126,726	\$ -	\$ -
Occupancy	877,679	702,143	175,536	-
Office	217,235	-	217,235	-
Organizational development	54,961	-	54,961	-
Other	120,739	119,715	1,024	-
Professional services and fees	969,666	-	969,666	-
Employee compensation	7,204,677	5,898,700	1,305,977	-
Staff development	87,978	66,150	21,828	-
Transportation	911,026	911,026	-	-
Interest	272,002	-	272,002	-
Depreciation and amortization	1,068,177	854,542	213,635	-
Total expenses	11,910,866	8,679,002	3,231,864	-
<b>PROGRAM REVENUES</b>				
Operating grants and contributions	384,627	384,627	-	-
Capital grants and contributions	456,632	456,632	-	-
Net program expenses	11,069,607	\$ 7,837,743	\$ 3,231,864	\$ -
<b>GENERAL REVENUES</b>				
Contributions	248,435			
District funding	10,539,645			
Other	112,873			
Total general revenues	10,900,953			
CHANGE IN NET POSITION	(168,654)			
NET POSITION, June 30, 2019	2,437,217			
NET POSITION, June 30, 2020	\$ 2,268,563			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,956,636	\$ -	\$ -	\$ 1,956,636
Accounts receivable	569,992	185,826	-	755,818
Due from other funds	185,826	-	-	185,826
Other current assets	79,959	-	-	79,959
Restricted Asset:				
TCRS Stabilization Reserve Trust	133,640	-	-	133,640
Total assets	<u>\$ 2,926,053</u>	<u>\$ 185,826</u>	<u>\$ -</u>	<u>\$ 3,111,879</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 368,194	\$ -	\$ -	\$ 368,194
Accrued expenditures	212,573	-	-	212,573
Due to other funds	-	185,826	-	185,826
Total liabilities	580,767	185,826	-	766,593
<b>FUND BALANCES</b>				
Nonspendable	79,959	-	-	79,959
Restricted	133,640	-	-	133,640
Unassigned	2,131,687	-	-	2,131,687
Total fund balances	<u>2,345,286</u>	<u>-</u>	<u>-</u>	<u>2,345,286</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,926,053</u>	<u>\$ 185,826</u>	<u>\$ -</u>	<u>\$ 3,111,879</u>

See accompanying notes to financial statements.



STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2020

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

Total governmental fund balances in the balance sheet	\$ 2,345,286
Capital assets not reported in the balance sheet	6,998,397
Pension amounts not reported in the balance sheet	
Net pension asset	473,620
Net pension liability	(235,546)
Deferred inflows of resources for pensions	(548,243)
Deferred outflows of resources for pensions	491,666
Long-term debt	(6,546,072)
Line of credit	(100,000)
Deferred inflows of resources related to deferred rent	(245,545)
Deferred inflows of resources for tenant improvements	<u>(365,000)</u>
Net position of governmental activities in the statement of net position	<u>\$ 2,268,563</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 225,935	\$ -	\$ 22,500	\$ 248,435
District funding	10,539,645	-	-	10,539,645
Federal and state grants	-	841,259	-	841,259
Other income	112,873	-	-	112,873
Total revenues	<u>10,878,453</u>	<u>841,259</u>	<u>22,500</u>	<u>11,742,212</u>
EXPENDITURES				
Current:				
Instructional	126,726	-	-	126,726
Occupancy	908,116	-	-	908,116
Office	217,235	-	-	217,235
Organizational development	54,961	-	-	54,961
Other	120,739	-	-	120,739
Professional services and fees	947,166	-	22,500	969,666
Employee compensation	6,890,002	384,627	-	7,274,629
Staff development	87,978	-	-	87,978
Transportation	911,026	-	-	911,026
Debt service:				
Principal	4,220,194	-	-	4,220,194
Interest	272,002	-	-	272,002
Capital outlay	<u>44,300</u>	<u>456,632</u>	<u>-</u>	<u>500,932</u>
Total expenditures	<u>14,800,445</u>	<u>841,259</u>	<u>22,500</u>	<u>15,664,204</u>
OTHER FINANCING SOURCES:				
Issuance of debt	<u>5,694,419</u>	<u>-</u>	<u>-</u>	<u>5,694,419</u>
NET CHANGE IN FUND BALANCES	1,772,427	-	-	1,772,427
FUND BALANCES, June 30, 2019	<u>572,859</u>	<u>-</u>	<u>-</u>	<u>572,859</u>
FUND BALANCES, June 30, 2020	<u>\$ 2,345,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,345,286</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - CONTINUED  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2020

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

Net change in fund balances as reported in the governmental funds statements	\$ 1,772,427
Issuance of long-term debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(5,694,419)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	500,932
Principal payments on long-term debt	4,220,194
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation and amortization expense	(1,068,177)
Occupancy expense increase associated with deferred rent and tenant improvement allowance	30,437
Expenditures for pensions in the governmental funds consists of contributions made, whereas in the school-wide statement, negative pension expense is calculated in accordance with GASB No. 68.	<u>69,952</u>
Change in net position of governmental activities	<u><u>\$ (168,654)</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

STEM Preparatory Academy (“STEM”) 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), STEM 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. STEM entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County (the “Board of Education”) on November 23, 2010, to operate a chartered middle school in Nashville, Tennessee. The middle school began classes in July 2011 with a fifth grade class, culminating with the addition of an eighth grade in the 2014-2015 fiscal year.

In June 2014, the Board of Education approved STEM’s application to open a new charter high school. The high school opened in the Fall of 2015 with a 9<sup>th</sup> grade class and added an additional grade each year culminating with a 12<sup>th</sup> grade in the 2018-2019 fiscal year.

Basic Financial Statements

Government-wide financial statements

The government-wide financial statements focus on the sustainability of STEM as an entity and the change in STEM’s net position resulting from the current year’s activities. In the government-wide statement of net position, 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 position presents the financial condition of STEM at year-end.

STEM’s net position are reported in two categories - investment in capital assets; and unrestricted net position. When both restricted and unrestricted resources are available for use, it is STEM’s policy to use restricted resources first, and then unrestricted resources as they are needed. STEM does not allocate indirect costs between functions.

The government-wide statement of activities reports both the gross and net cost of the organization’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.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

The financial transactions of STEM 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, fund balance, revenues and expenditures.

The emphasis in fund financial statements is on the major funds. STEM has no nonmajor funds for the year ended June 30, 2020. 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. STEM reports the following major governmental funds:

The General Purpose School Fund is STEM's primary operating fund. It accounts for all financial resources of the organization, 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 Restricted Contribution Fund is used to account for the receipt and disbursement of private contributions restricted primarily for specific purposes.

The focus of the governmental funds is upon the determination of financial resources, their balance, sources and use, rather than upon net income. STEM 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 STEM'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 STEM'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.

*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.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*Committed* - This classification consists of fund balances that can only be used for specific purposes established by formal action of STEM'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 STEM intends to use for specific purposes are also classified as assigned. STEM gives the authority to assign amounts to specific purposes to STEM'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

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

STEM 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.

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

The government-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.

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 government-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 government-wide financial statements.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

STEM 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. Any receivables that will not be collected within the available period are reported as unavailable revenues.

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 two to seven years, or over the term of the lease for leasehold improvements, if less.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. When applicable, STEM reports deferred outflow of resources relating to pensions: contributions made subsequent to the pension measurement date, difference between expected and actual experience, difference between projected and actual investment earnings, and changes in proportion of the net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (e.g., revenue) until that time. STEM's deferred inflows of resources includes \$245,545 in deferred rent and \$365,000 for deferred tenant improvements (see Note F), and pensions which relate to differences between expected and actual experience and differences between projected and actual investment earnings.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

STEM Preparatory Academy is a not-for-profit organization 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. STEM 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 STEM include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, STEM 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. Significant estimates include the useful lives of property and equipment, and actuarial assumptions related to pension calculations.

Grants

STEM 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 STEM.

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.



STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Balances

Transactions which constitute reimbursement of expenditures initially made from a fund, which are 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.

Interfund balance of \$185,826 between the General Purpose School Fund and the Federal and State Grants Fund represents grant expenditures made by the General Purpose School Fund in advance of grant receipts by the Federal and State Grants Fund.

Commitments, Contingencies and Risk Management

STEM is exposed to various risk of loss relating to torts, theft of, damage to, and destruction of assets; errors or commissions; illness or injuries to employees; and natural disasters. The organization carries insurance for certain risks of loss. Since inception, settled claims resulting from these risks have not exceeded commercial insurance coverage.

STEM may become subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such matters should not have a material adverse effect on STEM's financial position or results of operations, as of the date of these financial statements.

B. DEPOSITS WITH FINANCIAL INSTITUTION

STEM's policies limit deposits to those instruments allowable by state laws. Deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by STEM's agent in their name, or by the Federal Reserve Bank, acting as third party agents. As of June 30, 2020, all bank deposits were fully collateralized or insured by institutions insured by the FDIC or with banks who participate in the Tennessee Bank Collateral Pool.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2020</u>
<i>Depreciable</i>				
Office equipment	\$ 123,020	\$ -	\$ -	\$ 123,020
Furniture and fixtures	470,729	11,479	-	482,208
Computer equipment	544,719	296,135	-	840,854
Maintenance equipment	9,800	-	-	9,800
Leasehold improvements	7,170,135	193,318	-	7,363,453
Buildings	858,029	-	-	858,029
Transportation	<u>1,500,020</u>	<u>-</u>	<u>-</u>	<u>1,500,020</u>
Total depreciable capital assets	10,676,452	500,932	-	11,177,384
Accumulated depreciation	<u>( 3,110,810)</u>	<u>(1,068,177)</u>	<u>-</u>	<u>( 4,178,987)</u>
Capital assets, net	<u>\$ 7,565,642</u>	<u>\$ 567,245</u>	<u>\$ -</u>	<u>\$ 6,998,397</u>

Depreciation and amortization was charged to governmental activities as follows:

Student instruction and services	\$ 854,542
Administration	<u>213,635</u>
	<u>\$1,068,177</u>

During fiscal year 2020, STEM leased buses under capital leases. Assets under the capital leases totaled \$1,500,020 and is included in Transportation above. Amortization of the buses held under the capital leases totaled \$133,835 at June 30, 2020, and is included in depreciation expense.

D. LINE-OF-CREDIT

STEM has a \$325,000 line-of-credit with a bank that expires in May 2022. The line of credit bears interest at the bank's base rate which was 4.00% at June 30, 2020. Substantially all assets of STEM collateralize the line of credit. The line of credit had an outstanding balance of \$100,000 at June 30, 2020.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

E. LONG-TERM DEBT

Notes Payable

In June 2015, STEM entered into a \$650,000 line of credit agreement to fund leasehold improvements at the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 5.00%. Principal and interest are due in monthly installments of \$12,255 through June 2020. The loan was paid in full as of June 30, 2020.

In June 2015, STEM entered into a \$100,000 line of credit agreement to fund additional leasehold improvements at the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 2.00%. Principal and interest are due in monthly installments of \$1,734 through June 2020. The loan was paid in full as of June 30, 2020.

In June 2016, STEM entered into a \$400,000 debt agreement to fund the purchases of furniture and equipment. The debt is collateralized by all of the furniture and equipment purchased using the funds. The loan accrued interest at a fixed rate of 4.25% annually. Principal and interest are due in monthly installments of \$7,423 through June 2021. The outstanding principal balance at June 30, 2020 totaled \$86,345.

In July 2016, STEM entered into a \$2,800,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 4.75%. Principal and interest are due in monthly installments of \$29,360 through December 2026. The loan was paid in full as of June 30, 2020.

In July 2017, STEM entered into a \$900,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 4.75%. Principal and interest are due in monthly installments of \$9,904 through January 2027. The loan was paid in full as of June 30, 2020.

In June 2018, STEM entered into a \$720,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 5.15%. Principal and interest are due in monthly installments of \$10,229 through June 2025. The loan was paid in full as of June 30, 2020.

In September 2019, STEM entered into a \$3,858,251 term loan agreement in order to pay off and refinance all outstanding balances on existing line of credits with the same lender and to provide additional funds to make certain capital upgrades. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 5.25%. Principal and interest are due in monthly installments of \$41,090 through September 2024. The loan is scheduled to mature in October 2024 at which point all outstanding principal and interest will be due. The outstanding principal balance at June 30, 2020 totaled \$3,709,271.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

E. LONG-TERM DEBT - Continued

In May 2020, STEM entered into a \$200,000 debt agreement to fund the purchase of equipment. The debt is collateralized by all of the equipment purchased using the funds. The loan accrued interest at a fixed rate of 4.25% annually. Principal and interest are due in monthly installments of \$3,712 through May 2025. The outstanding principal balance at June 30, 2020 totaled \$196,996.

On May 15, 2020, STEM received funding from the Paycheck Protection Program (“PPP”) loan in the amount of \$1,386,168 which it applied for in response to the economic impact from the COVID-19 pandemic (see Note L). The loan is subject to forgiveness if it is utilized for expenditures such as certain payroll, rent, and utility costs. No principal payments are due until November 2020 at which point the School will begin making regular monthly payments of approximately \$78,009 over a 24-month period. Interest accrues at a fixed rate of 1%. It is the School’s intent to utilize the loan proceeds for purposes that qualify the loan for forgiveness and management expects the loan to ultimately be forgiven. The balance of the note payable at June 30, 2020 was \$1,386,168.

The notes payable contain clauses whereas in the event of default, the principal and outstanding accrued interest of all outstanding obligations may be declared, and shall become, immediately due and payable as provided in the agreements. Proceeds from the sale of collateral shall be used toward outstanding interest and principal.

The following is a summary of changes in STEM’s notes payable for governmental activities for the fiscal year ended June 30, 2020:

	Balance <u>July 1, 2019</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2020</u>
Note payable - bank	\$ 137,033	\$ -	\$ 137,033	\$ -
Note payable - bank	27,538	-	27,538	-
Note payable - bank	2,219,496	-	2,219,496	-
Note payable - bank	169,817	-	83,472	86,345
Note payable - bank	655,615	-	655,615	-
Note payable - bank	604,215	-	604,215	-
Note payable - bank	-	3,858,251	148,980	3,709,271
Note payable - bank	-	200,000	3,004	196,996
Note payable - bank	<u>-</u>	<u>1,386,168</u>	<u>-</u>	<u>1,386,168</u>
Total	<u>\$3,813,714</u>	<u>\$5,444,419</u>	<u>\$3,879,353</u>	<u>\$5,378,780</u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

E. LONG-TERM DEBT - Continued

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2021	\$260,650	\$ 995,716
2022	184,393	1,229,738
2023	158,587	379,027
2024	138,878	398,737
2025	52,071	2,475,562
Thereafter	<u>-</u>	<u>-</u>
	<u>\$794,579</u>	<u>\$5,478,780</u>

Capital Lease Obligations

In July 2018, STEM entered into a capital lease agreement with a bank for the use of 14 school buses. The lease term is for 7 years commencing July 10, 2018. The lease accrues interest at a fixed rate of 5%. The lease requires STEM to pay rent in monthly installments of \$17,199 through June 2025. The agreement also includes an option to purchase the equipment for 5% of the original cost at the expiration of the initial term. In April 2019, STEM entered into a capital lease agreement with a bank for the use of 3 school buses. The lease term is for 7 years commencing April 19, 2019. The lease accrues interest at a fixed rate of 5%. The lease requires STEM to pay rent in monthly installments of \$4,002 through March 2026. The agreement also includes an option to purchase the equipment for 5% of the original cost at the expiration of the initial term.

A summary of changes in STEM's capital leases for governmental activities for the fiscal year ended June 30, 2020 follows:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2020</u>
Capital lease - buses	\$1,080,623	\$ -	\$155,896	\$ 924,727
Capital lease - buses	<u>277,510</u>	<u>-</u>	<u>34,945</u>	<u>242,565</u>
Total	<u>\$1,358,133</u>	<u>\$ -</u>	<u>\$190,841</u>	<u>\$1,167,292</u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

E. LONG-TERM DEBT - Continued

The future minimum lease obligations as of June 30, 2020 are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 254,414
2022	254,414
2023	254,414
2024	254,414
2025	254,414
Thereafter	<u>57,220</u>
Total minimum lease payments	1,329,290
Less: amount representing interest	<u>( 161,998)</u>
Present value of future minimum lease payments	1,167,292
Due within one year	<u>200,605</u>
Long-term portion	<u>\$ 966,687</u>

F. LEASING EXPENSES

In May 2013, STEM entered into a lease agreement with the Metropolitan Government of Nashville and Davidson County (“Metro”) to occupy educational space in South Nashville. The lease term is for 10 years commencing from August 1, 2013 with the option to extend two 5-year terms each. The lease requires STEM to pay rent in monthly installments of \$6,500 through July 2014, increasing 2% per year thereafter. The agreement also entitles STEM to credit against the payment of rent certain tenant improvements approved by Metro totaling \$674,083. The agreement was amended in July 2014 to include additional properties to be leased by STEM. The new lease term is for 10 years commencing from July 1, 2014 with the option to extend two 5-year terms each. The lease requires STEM to pay rent in monthly installments of \$11,781 through July 2015, increasing 2% per year thereafter. The agreement also entitles STEM to credit against the payment of rent certain tenant improvements approved by Metro totaling \$1,043,942. Tenant improvements were primarily funded by construction loans (See Note E). STEM recorded rent expense related to the lease based on a straight-line calculation which totaled \$42,563 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$245,545 at June 30, 2020, and presented with deferred inflows of resources.

During 2016, STEM received \$730,000 in tenant leasehold improvement allowances to fund improvements towards the Newcomer Academy program at the middle school. Such amount has been recorded as a deferred inflow of resources on the school-wide financial statements and is being recognized as a reduction of rent expense over the life of the related improvements, resulting in a reduction of rent totaling \$73,000 for the year ended June 30, 2020. The net tenant improvement allowance totals \$365,000 at June 30, 2020, and is presented with deferred inflows of resources.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

F. LEASING EXPENSES - Continued

STEM's rent expense for the period ended 2020, net of the amortization related to deferred inflows, totaled \$(30,437) related to deferred rent and the tenant improvement allowance.

In March 2016, STEM entered into a lease agreement with Metro to occupy additional educational space in South Nashville for the High School. The lease term is for 10 years commencing from July 1, 2016 with the option to extend two 5-year terms each. The lease requires STEM to pay rent in monthly installments of \$24,650 through June 2019, increasing 5% every 3 years thereafter. The agreement also includes an option to purchase the property at a price ranging from \$2,000,000 to \$2,320,000.

In May 2019, STEM entered into a lease agreement for copier equipment. The lease term is for 5 years commencing May 27, 2024. The lease requires STEM to pay monthly lease installments of \$329 through May 2024.

The leases require monthly rental payments through July 1, 2026, as follows:

Year Ending June 30,

2021	\$ 473,660
2022	476,839
2023	495,393
2024	343,827
2025	326,076
2026	<u>342,432</u>
	<u>\$2,458,227</u>

G. FUND BALANCES

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

The General Purpose School Fund includes fund balance amounts that are restricted for the TCRS Stabilization Reserve Trust.

H. CONCENTRATIONS

STEM received 90% of its funding for operations through the Metropolitan Nashville Public Schools ("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, 2020, was \$10,539,645. Outside fundraising for capital needs is ongoing since the charter school agreement with MNPS does not include an allocation for capital expenditures.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS

STEM, similar to MNPS and all Tennessee Public Charter Schools in the MNPS System, participates in the following three defined benefit pension plans (collectively the “Pension Plans”):

Certificated Employees

Tennessee Consolidated Retirement System (“TCRS”):

Teachers Legacy Pension Plan

Teachers Retirement Plan (collectively the “TCRS Plans”)

Non-Certificated Employees

Metropolitan Government of Nashville and Davidson County, Tennessee  
(the “Metropolitan Government”):

Metro Pension Plan of the Metropolitan Employees Benefit Trust  
(the “Metro Plan”)

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the plans’ fiduciary net position have been determined on the same basis as they are reported by the TCRS and the Metropolitan Government. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Pension Plans. Investments are reported at fair value.

(I.) TCRS Plans

(A) General Information - TCRS Plans

Description of the TCRS Plans

Teachers with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees.



STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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I. PENSION PLANS - Continued

Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014.

The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment - Policies](https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies).

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly.

*Teachers Legacy Pension Plan*

Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Teachers Retirement Plan*

Members of the Teacher Retirement Plan are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested pursuant to the

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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I. PENSION PLANS - Continued

rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the July 2 of the previous year.

The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teachers Legacy Pension Plan and Teachers Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions

Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly (or by automatic cost controls set out in law for the Teachers Retirement Plan). Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted.

*Teachers Legacy Pension Plan*

Employer contributions by STEM for the year ended June 30, 2020, to the Teacher Legacy Pension Plan were \$123,613 which is 10.63 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

*Teachers Retirement Plan*

Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. Employer contributions for the year ended June 30, 2020 to the Teacher Retirement Plan were \$64,210, which is 2.03 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

(B) Pension Liabilities (Assets) - TCRS Plans

Pension Liability (Asset)

*Teachers Legacy Pension Plan*

STEM reported an asset of (\$306,272) for its proportionate share of the net pension asset. The net pension liability (asset) was measured as of June 30, 2019, and the total pension liability (asset) used to calculate the net pension (asset) was determined by an actuarial valuation as of that date. STEM's proportion of the net pension liability (asset) was based on STEM's contributions to the pension plan relative to the contributions of all participating LEA's. At the measurement date of June 30, 2019, STEM's proportion was 0.029788 percent. The proportion measured as of June 30, 2018 was 0.022721 percent.

*Teachers Retirement Plan*

At June 30, 2020, STEM reported an asset of (\$167,348) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, and the total pension liability (asset) used to calculate the net pension asset was determined by an actuarial value as of that date. STEM's proportion of the net pension liability (asset) was based on the STEM's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2019, STEM's proportion was 0.296463 percent. The proportion measured as of June 30, 2018 as 0.324129 percent.

Actuarial Assumptions

*Teachers Legacy Pension Plan and Teachers Retirement Plan*

The total pension liability (asset) in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	2.25 percent

Mortality rates are customized based on actuarial experience including an adjustment for some anticipated future improvement.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

The actuarial assumptions used in the June 30, 2019, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns were used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		<hr/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a blending of the factors described above.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Discount Rate

*Teachers Legacy Pension Plan and Teachers Retirement Plan*

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

I. Metro Plan

(A) General Information - Metro Plan

Plan Description

The Metro Plan is established under the authority of the Metropolitan Charter, Article XIII. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also required that the pension plan be actuarially sound. Administrative costs of the plan are financed through plan assets. The plan is managed by the Metropolitan Employee Benefit Board, an independent board, created by the Metropolitan Charter. The Board is composed of ten members as follows: Finance Director, Human Resources Director, three members appointed by the Mayor, and five members selected by the employees and retirees of the Metropolitan Government. Additional information about the Metro Plan can be found in the publically available comprehensive annual financial report of the Metropolitan Government. That report may be obtained at [www.nashville.gov](http://www.nashville.gov).

Benefits Provided

As of July 1, 1995, Division B of the Metro Plan was established for all non-certificated employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metro Government employees. Employees with an effective hire date of July 1, 1995, or later are only eligible to participate in Division B of the Metro Plan.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Normal retirement for the School's employees participating in the Metro Plan occurs at the unreduced retirement age which is the earlier of (a) the date when the employee's age plus the completed years of credited service equals 85, but not before age 60; or (b) the date when the employee reaches age 65 and completes 5 years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75 percent of average earnings based upon the previous 60 consecutive months of credit service which produce the highest earnings. Benefits fully vest on completing 5 years of service for employees employed on or between October 1, 2001, and December 31, 2012, who vest before leaving employment. Benefits fully vest on completing 10 years of service for employees and non-vested employees hired or rehired on or after January 1, 2013. An early retirement option, with reduced benefits, is available for retired employees if the termination occurs prior to the eligibility under normal retirement but after age 50 and after the completion of 10 years of credited employee service.

All assets of the Metropolitan Employees' Benefit Trust Fund may legally be used to pay benefit to any plan members or beneficiaries.

Contributions

The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All funding is provided under an actuarially recommended employee contribution rate of 12.340 percent for the non-certificate employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metropolitan Government Employees. Contributions to the plan for the year ended June 30, 2020 were \$85,432.

(B) Pension Liabilities - Metro Plan

Pension Liability

STEM reported a liability of \$235,546 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. STEM's proportion of the net pension liability was based on STEM's employee contributions to the pension plan during the year ended June 30, 2020, relative to all contributions for 2020. At the June 30, 2020 measurement date, STEM's proportionate share was 0.108647 percent. At the June 30, 2019 measurement date, STEM's proportionate share was 0.117533 percent.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2019. Actuarial assumptions are summarized below:

Inflation	2.5 percent
Salary increases	4.0 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	1.25 percent

Mortality rates were based on the 115% RP-2014 Blue Collar Table, as determined by the period actuarial experience study. The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period 2012 to 2017.

The long-term expected rate of return on pension plan investments was established in conjunction with the most recent actuarial experience study completed February 20, 2018, by considering the following three techniques: (1) the 20-year historical return of the Metro Open Plan at June 30, 2017, (2) the historical market returns of asset classes from 1926 to 2017, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The blended capital market projection established the long-timer expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of 2.5 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.1%	24%
International equity	5.3%	16%
Private equity	7.9%	10%
Equity hedge	7.9%	10%
Real estate	4.9%	10%
Core plus fixed income	2.3%	20%
Fixed income alternatives	2.7%	10%

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. Based on the Metro Plan assumptions and funding policy, the fiduciary net position for the plan was projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

III. Pension Liabilities (Assets), Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Pension Plans

Pension Liabilities (Assets)

STEM reports the following net pension liability (asset) as of June 30, 2020:

TCRS Legacy Plan	\$(306,272)
TCRS Retirement Plan	<u>(167,348)</u>
Net pension (asset)	<u>\$(473,620)</u>
Metro Plan	<u>\$ 235,546</u>
Net pension liability	<u>\$ 235,546</u>



STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Sensitivity of the proportionate share of net pension liability (asset) to changes in the discount rate

The following presents STEM's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.25 percent, as well as what STEM's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25)%</u>	<u>Current Discount Rate (7.25)%</u>	<u>1% Increase (8.25)%</u>
Proportionate share of the net pension liability (asset):			
TCRS Legacy Plan	\$ 626,239	\$(306,272)	\$(1,048,059)
TCRS Retirement Plan	53,023	(167,348)	( 330,246)
Metro Plan	<u>656,559</u>	<u>235,546</u>	<u>( 144,688)</u>
Total	<u>\$1,335,821</u>	<u>\$(238,074)</u>	<u>\$(1,522,993)</u>

Pension Plan Fiduciary Net Position

Detailed information about the Pension Plans' respective fiduciary net position is available in a separately issued TCRS and Metropolitan Government financial reports.

Pension Expense (Negative Pension Expense)

For the year ended June 30, 2020, STEM recognized pension expense (negative pension expense) as follows:

TCRS Legacy Plan	\$(75,030)
TCRS Retirement Plan	(14,497)
Metro Plan	<u>19,575</u>
Negative pension expense	<u>\$(69,952)</u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

I. PENSION PLANS - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2020, STEM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resource</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
TCRS Legacy Plan	\$ 14,912	\$187,076
TCRS Retirement Plan	6,939	29,214
Metro Plan	54,022	55,090
Changes in assumptions		
TCRS Legacy Plan	41,272	-
TCRS Retirement Plan	5,815	-
Metro Plan	70,584	-
Net difference between projected and actual earnings on pension plan investments		
TCRS Legacy Plan	-	87,511
TCRS Retirement Plan	-	7,074
Metro Plan	-	59,424
Changes in proportion of Net Pension Liability (Asset)		
TCRS Legacy Plan	82,452	115,575
TCRS Retirement Plan	11,781	3,879
Metro Plan	16,067	3,400
Contributions subsequent to the measurement date of June 30, 2019		
TCRS Legacy Plan	123,613	
TCRS Retirement Plan	<u>64,210</u>	<u>N/A</u>
Totals	<u>\$491,666</u>	<u>\$548,243</u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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I. PENSION PLANS - Continued

STEM's employer contributions of \$187,823 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	TCRS Legacy Plan	TCRS Retirement Plan	Metro Plan	Total
2021	\$ (52,962)	\$ (2,925)	\$ (52,147)	\$ (108,034)
2022	(127,201)	(4,007)	(6,167)	(137,375)
2023	(41,184)	(2,022)	18,948	(24,258)
2024	(30,177)	(1,012)	37,224	6,035
2025	-	(723)	19,397	18,674
Thereafter	-	(4,943)	5,504	560

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Payable to the Pension Plans

At June 30, 2020, STEM reported payables for the outstanding amount of contributions to the pension plans for the year ended June 30, 2020, as follows:

TCRS Legacy Plan	\$10,025
TCRS Retirement Plan	8,777
Metro Plan	<u>7,124</u>
	<u>\$25,926</u>

Defined Contribution Plan

The TCRS Retirement Plan has a defined contribution component to the plan. Under the terms of the Plan for the defined contribution component, employees contribute 2% of their salaries to the plan, but are allowed an opt out feature. STEM is required to contribute 5% of annual salaries, to an individual employee account. For the year ended June 30, 2020, STEM recognized pension expense of \$168,316 related to the defined contribution component of the plan. Employees are immediately vested in the plan.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST

Legal Provisions

STEM is a member of the Tennessee Consolidated Retirement System (“TCRS”) Stabilization Reserve Trust. The Organization has placed funds into the irrevocable trust as authorized by statute under Tennessee Code Annotated (“TCA”), Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the trust. Funds of trust members are held and invested in the name of the trust for the benefit of each member. Each member’s funds are restricted for the payment of retirement benefits of that member’s employees. Trust funds are not subject to the claims of general creditors of the Organization.

The Trust is authorized to make investments as directed by the TCRS Board of Trustees. STEM may not impose any restrictions on investments placed by the trust on their behalf.

Investment Balances

Assets of the TCRS, including the Stabilization Reserve Trust, are invested in the Tennessee Retiree Group Trust (“TRGT”). The TRGT is not registered with the Securities and Exchange Commission (“SEC”) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool’s underlying portfolio. Furthermore, TCRS had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of the investments and interest and dividend income. Interest is recognized when earned. Securities and securities transactions are recorded in the financial statements on a trade-date basis. The fair value of assets of the TRGT held at June 30, 2020, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3 - Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value (“NAV”) per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principles for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety is categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management of the TRGT developed a fair value committee that worked in conjunction with the plan’s custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes to be represented in the table on the next page.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

U.S. Treasury Bills, Bonds, Notes, and Futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute (“MAI”), or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

Investments in private mutual funds, traditional private equity funds, strategic lending funds and real estate funds that report using GAAP, the fair value, as well as the unfunded commitments, were determined using the prior quarter's NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

At June 30, 2020, STEM assets balance was \$133,640 and had the following investments held by the trust on its behalf:

<u>Investment</u>	<u>Weighted Average Maturity (days)</u>	<u>Maturities</u>	<u>Fair Value</u>
Investments at Fair Value:			
U.S. Equity	N/A	N/A	\$ 41,428
Developed Market International Equity	N/A	N/A	18,710
Emerging Market International Equity	N/A	N/A	5,346
U.S. Fixed Income	N/A	N/A	26,728
Real Estate	N/A	N/A	13,364
Short-term Securities	N/A	N/A	1,336
NAV-Private Equity and Strategic Lending	N/A	N/A	<u>26,728</u>
Total			<u><u>\$ 133,640</u></u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

Investment by Fair Value Level	Fair Value 6-30-20	Fair Value Measurements Using			NAV
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U.S. Equity	\$ 41,428	\$ 41,428	\$ -	\$ -	\$ -
Developed Market					
International Equity	18,710	18,710	-	-	-
Emerging Market					
International Equity	5,346	5,346	-	-	-
U.S. Fixed Income	26,728	-	26,728	-	-
Real Estate	13,364	-	-	13,364	-
Short-term Securities	1,336	-	1,336	-	-
Private Equity and Strategic Lending	26,728	-	-	-	26,728
Total	<u>\$ 133,640</u>	<u>\$ 65,484</u>	<u>\$ 28,064</u>	<u>\$ 13,364</u>	<u>\$ 26,728</u>

Risks and Uncertainties

The trust's investments include various types of investment funds, which in turn invest in any combination of stock, bonds, and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported for trust investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. STEM does not have the ability to limit trust investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STEM does not have the ability to limit the credit ratings of individual investments made by the trust.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
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J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the county's investment in a single issuer. STEM places no limit on the amount the county may invest in one issuer.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Pursuant to the trust agreement, investments are held in the name of the trust for the benefit of the Organization to pay retirement benefits of STEM's employees.

For further information concerning the Organization's investments with the TCRS Stabilization Reserve Trust, audited financial statements of the Tennessee Consolidated Retirement System may be obtained at <https://comptroller.tn.gov/content/dam/cot/sa/advanced-search/disclaimer/2020/ag19091.pdf>.

K. COMMITMENTS AND CONTINGENCIES

In March 2018, STEM entered into an agreement for the operation and support services of the student transportation system. The vendor is an independent contractor that has agreed to use STEM's facilities and equipment (See Note F). The agreement commenced July 1, 2018 for 7 years ending June 30, 2025 with an option to renew for an additional 5-year period at the end of the initial term. Annual costs throughout the life of the agreement are estimated at \$879,230 per year plus the costs of sales taxes, registration, fuel, maintenance, and insurance. Total expenses for the year ended June 30, 2020 were \$906,708.

L. RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak"). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the pandemic continues to evolve as of the date of this report and has affected STEM's operational and financial performance due to the impact on its students, contributors, employees and vendors, which is the result of various restrictions put in place by governments to curtail the spread of the coronavirus as well as due to developments such as social distancing and shelter-in-place directives.



STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020

L. RISKS AND UNCERTAINTIES - Continued

In addition, this pandemic has adversely affected global economic activity and contributed to deterioration and instability in financial markets. The pandemic may have a continued material adverse impact on economic and market conditions, triggering a period of economic slowdown. As such, this may hinder STEM's ability to advance their mission and has led the School to seek financing through the PPP (See Note E).

While expected to be temporary, STEM cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time. If the pandemic continues, it may have an adverse effect on the School's results of future operations, financial position, and liquidity in fiscal year 2021.

M. SUBSEQUENT EVENTS

STEM has evaluated subsequent events through January 25, 2021, the date at which the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.

## **REQUIRED SUPPLEMENTARY INFORMATION**

STEM PREPARATORY ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PROPORTIONATE SHARE OF  
NET PENSION LIABILITY (ASSET)  
FISCAL YEAR ENDED JUNE 30,

<u>Teachers Legacy Plan of TCRS</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Proportion of the net pension liability (asset)	0.02720%	0.02327%	0.01994%	0.02465%	0.02272%	0.02979%
Proportionate share of the of the net pension liability (asset)	\$ (4,424)	\$ 9,532	\$ 124,632	\$ (8,066)	\$ (79,955)	\$ (306,272)
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 719,896	\$ 871,465	\$ 795,633	\$ 998,827
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.411%	1.094%	17.313%	-0.926%	-10.049%	-30.663%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%	100.14%	101.49%	104.28%
<u>Teachers Retirement Plan of TCRS</u>	<u>2015 (1)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Measurement date		June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019
Proportion of the net pension liability (asset)		0.29806%	0.28663%	0.32127%	0.32413%	0.02965%
Proportionate share of the of the net pension liability (asset)		\$ (11,991)	\$ (29,839)	\$ (84,760)	\$ (147,000)	\$ (167,348)
Covered payroll		\$ 619,296	\$ 1,261,173	\$ 2,223,741	\$ 2,832,489	\$ 3,137,187
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll		-1.94%	-2.37%	-3.81%	-5.19%	-5.33%
Plan fiduciary net position as a percentage of the total pension liability		127.46%	121.88%	126.81%	126.97%	123.07%

The amounts presented in this schedule were determined as of the measurement date.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

(1) Information is not applicable for 2015 in this schedule for the Teachers Retirement Plan of TCRS as the measurement date was June 30, 2014, and the Teachers Retirement Plan did not commence until July 1, 2014.

See independent auditor's report.

STEM PREPARATORY ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE PROPORTIONATE SHARE OF  
NET PENSION LIABILITY (ASSET)  
FISCAL YEAR ENDED JUNE 30,

<u>Metro Plan</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Measurement date	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Proportion of the net pension liability (asset)	0.07440%	0.08263%	0.10093%	0.09112%	0.11753%	0.10865%
Proportionate share of the of the net pension liability (asset)	\$ 51,297	\$ 182,885	\$ 41,317	\$ 82,468	\$ 144,007	\$ 235,546
Covered payroll	\$ 389,092	\$ 456,441	\$ 604,173	565,203	735,697	692,318
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	13.184%	40.068%	6.839%	14.591%	19.574%	34.023%
Plan fiduciary net position as a percentage of the total pension liability	97.57%	92.39%	98.64%	97.45%	96.37%	93.79%

The amounts presented in this schedule were determined as of the measurement date.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See independent auditor's report.

STEM PREPARATORY ACADEMY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
FISCAL YEAR ENDING JUNE 30,

<u>Teachers Legacy Pension Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarial Determined Contributions (ADC)	\$ 94,891	\$ 78,745	\$ 64,966	\$ 78,781	\$ 72,243	\$ 104,477	\$ 123,613
Contributions in relation to the actuarially determined contribution	<u>94,891</u>	<u>78,745</u>	<u>64,966</u>	<u>78,781</u>	<u>72,243</u>	<u>104,477</u>	<u>123,613</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 719,896	\$ 871,465	\$ 795,633	\$ 998,824	\$ 1,162,869
Contributions as a percentage of covered payroll	8.88%	9.04%	9.04%	9.04%	9.08%	10.46%	10.63%
<u>Teachers Retirement Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019 *</u>	<u>2020 *</u>
Actuarial Determined Contributions (ADC)	N/A	\$ 15,482	\$ 31,570	\$ 84,344	\$ 46,191	\$ 60,861	\$ 64,210
Contributions in relation to the actuarially determined contribution		<u>24,771</u>	<u>50,547</u>	<u>84,344</u>	<u>113,300</u>	<u>60,861</u>	<u>64,210</u>
Contribution deficiency (excess)		<u>\$ (9,289)</u>	<u>\$ (18,977)</u>	<u>\$ -</u>	<u>\$ (67,109)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll		\$ 619,296	\$ 1,263,675	\$ 2,223,741	\$ 2,832,489	\$ 3,137,165	\$ 3,163,054
Contributions as a percentage of covered payroll		4.00%	4.00%	3.79%	4.00%	1.94%	2.03%
<u>Metro Plan</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarial Determined Contributions (ADC)	\$ 41,059	\$ 69,986	\$ 70,794	\$ 74,555	\$ 69,746	\$ 90,785	\$ 85,432
Contributions in relation to the actuarially determined contribution	<u>41,059</u>	<u>69,986</u>	<u>70,794</u>	<u>74,555</u>	<u>69,746</u>	<u>90,785</u>	<u>85,432</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 239,873	\$ 389,092	\$ 456,441	\$ 604,173	\$ 565,203	\$ 735,697	\$ 692,318
Contributions as a percentage of covered payroll	17.117%	17.987%	15.510%	12.340%	12.340%	12.340%	12.340%

\* In fiscal year 2019 and 2020, STEM placed the actuarially determined contribution rate (1.94 percent and 2.03 percent, respectively) of covered payroll into the Teacher's Retirement Plan of TCRS and placed 2.06 percent and 1.97 percent, respectively, of covered payroll into the TCRS Stabilization Reserve Trust.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

*Changes of Assumptions for TCRS Plans.* In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

## **OTHER INFORMATION**

STEM PREPARATORY ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2020

<u>Program Name/Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	N/A	\$ 216,220
Title II Part A Improving Teacher Quality State Grants	84.367	N/A	33,590
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	<u>134,817</u>
Total U.S. Department of Education			<u>384,627</u>
Total Federal Awards			<u>384,627</u>
<u>State Financial Assistance</u>			
TENNESSEE DEPARTMENT OF EDUCATION:			
Basic Education Program	N/A	N/A	219,000
High Quality Charter School Facilities Program Grant	N/A	N/A	237,632
Passed through Metropolitan Nashville Public Schools			
Basic Education Program	N/A	N/A	<u>10,539,645</u>
Total State Awards			<u>10,996,277</u>
Total Federal and State Awards			<u>\$ 11,380,904</u>

Note 1: The schedule of expenditures of federal awards includes the federal grant activity and is presented in accordance with the requirements of the Uniform Guidance and the State of Tennessee. The schedule is prepared using the accrual basis of accounting.

See independent auditor's report.

STEM PREPARATORY ACADEMY  
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE  
JUNE 30, 2020

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2019	Issued During Period	Paid and/or Matured During Period	Forgiven During Period	Outstanding 6/30/2020
<b>Governmental Activities:</b>									
<u>NOTES PAYABLE</u>									
<u>Payable through General Purpose School Fund</u>									
Construction Loan through Pathway Lending	650,000	5.00%	06/09/2015	06/01/2020	\$ 137,033	\$ -	\$ 137,033	\$ -	\$ -
Construction Loan through Pathway Lending	100,000	2.00%	06/09/2015	06/10/2020	27,538	-	27,538	-	-
Construction Loan through Pathway Lending	2,800,000	4.75%	07/22/2016	12/01/2026	2,219,496	-	2,219,496	-	-
Construction Loan through Pathway Lending	900,000	4.75%	07/25/2017	01/01/2027	655,615	-	655,615	-	-
Construction Loan through Pathway Lending	720,000	5.15%	06/01/2018	06/01/2025	604,215	-	604,215	-	-
Construction Loan through Pathway Lending	3,858,251	5.25%	09/27/2019	10/01/2024	-	3,858,251	148,980	-	3,709,271
Note Payable through Pinnacle Bank	400,000	4.25%	06/28/2016	06/28/2021	169,817	-	83,472	-	86,345
Note Payable through Pinnacle Bank	200,000	4.25%	05/15/2020	05/12/2025	-	200,000	3,004	-	196,996
Paycheck Protection Program	1,386,168	1.00%	04/15/2020	04/14/2022	-	1,386,168	-	-	1,386,168
Total Notes Payable					<u>\$ 3,813,714</u>	<u>\$ 5,444,419</u>	<u>\$ 3,879,353</u>	<u>\$ -</u>	<u>\$ 5,378,780</u>
<u>LINE-OF-CREDIT</u>									
<u>Payable through General Purpose School Fund</u>									
Line-of-credit through Pinnacle Bank	\$ 325,000	4.00%	06/16/2015	05/13/2022	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>

See independent auditor's report.



SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES BY SCHOOL  
STEM PREPARATORY ACADEMY MIDDLE SCHOOL  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 998,973	\$ -	\$ -	\$ 998,973
Receivables	291,013	94,875	-	385,888
Due from other funds	94,875	-	-	94,875
Other current assets	42,767	-	-	42,767
Restricted Asset:				
TCRS Stabilization Reserve Trust	68,231	-	-	68,231
Total assets	<u>\$ 1,495,859</u>	<u>\$ 94,875</u>	<u>\$ -</u>	<u>\$ 1,590,734</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 187,984	\$ -	\$ -	\$ 187,984
Accrued expenditures	108,531	-	-	108,531
Due to other funds	-	94,875	-	94,875
Total liabilities	<u>296,515</u>	<u>94,875</u>	<u>-</u>	<u>391,390</u>
<b>FUND BALANCES</b>				
Nonspendable	42,767	-	-	42,767
Restricted	68,231	-	-	68,231
Unassigned	1,088,346	-	-	1,088,346
Total fund balances	<u>1,199,344</u>	<u>-</u>	<u>-</u>	<u>1,199,344</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,495,859</u>	<u>\$ 94,875</u>	<u>\$ -</u>	<u>\$ 1,590,734</u>

See independent auditor's report and notes to schedules.

SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES BY SCHOOL  
STEM PREPARATORY ACADEMY HIGH SCHOOL  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 957,663	\$ -	\$ -	\$ 957,663
Receivables	278,979	90,951	-	369,930
Due from other funds	90,951	-	-	90,951
Other current assets	37,192	-	-	37,192
Restricted Asset:				
TCRS Stabilization Reserve Trust	65,409	-	-	65,409
Total assets	<u>\$ 1,430,194</u>	<u>\$ 90,951</u>	<u>\$ -</u>	<u>\$ 1,521,145</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 180,210	\$ -	\$ -	\$ 180,210
Accrued expenditures	104,042	-	-	104,042
Due to other funds	-	90,951	-	90,951
Total liabilities	<u>284,252</u>	<u>90,951</u>	<u>-</u>	<u>375,203</u>
<b>FUND BALANCES</b>				
Nonspendable	37,192	-	-	37,192
Restricted	65,409	-	-	65,409
Unassigned	1,043,341	-	-	1,043,341
Total fund balances	<u>1,145,942</u>	<u>-</u>	<u>-</u>	<u>1,145,942</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,430,194</u>	<u>\$ 90,951</u>	<u>\$ -</u>	<u>\$ 1,521,145</u>

See independent auditor's report and notes to schedules.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BY SCHOOL  
STEM PREPARATORY ACADEMY MIDDLE SCHOOL  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 113,018	\$ -	\$ 11,250	\$ 124,268
District funding	5,409,885	-	-	5,409,885
Federal and state grants	-	496,893	-	496,893
Other income	51,336	-	-	51,336
Total revenues	<u>5,574,239</u>	<u>496,893</u>	<u>11,250</u>	<u>6,082,382</u>
EXPENDITURES				
Current:				
Instructional	65,459	-	-	65,459
Occupancy	449,949	-	-	449,949
Office	109,238	-	-	109,238
Organizational development	27,338	-	-	27,338
Other	50,065	-	-	50,065
Professional services and fees	543,169	-	11,250	554,419
Employee compensation	3,622,843	225,629	-	3,848,472
Staff development	29,841	-	-	29,841
Transportation	455,513	-	-	455,513
Debt Service				
Principal	170,421	-	-	170,421
Interest	39,299	-	-	39,299
Capital outlay	<u>(17,725)</u>	<u>271,264</u>	<u>-</u>	<u>253,539</u>
Total expenditures	<u>5,545,410</u>	<u>496,893</u>	<u>11,250</u>	<u>6,053,553</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	49,100	-	-	49,100
Issuance of debt	<u>818,084</u>	<u>-</u>	<u>-</u>	<u>818,084</u>
Total other financing sources	<u>867,184</u>	<u>-</u>	<u>-</u>	<u>867,184</u>
NET CHANGE IN FUND BALANCES	896,013	-	-	896,013
FUND BALANCES, June 30, 2019	<u>303,331</u>	<u>-</u>	<u>-</u>	<u>303,331</u>
FUND BALANCES, June 30, 2020	<u>\$ 1,199,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,199,344</u>

See independent auditor's report and notes to schedules

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES BY SCHOOL  
STEM PREPARATORY ACADEMY HIGH SCHOOL  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2020

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 112,917	\$ -	\$ 11,250	\$ 124,167
District funding	5,129,760	-	-	5,129,760
Federal and state grants	-	344,366	-	344,366
Other income	61,537	-	-	61,537
Total revenues	<u>5,304,214</u>	<u>344,366</u>	<u>11,250</u>	<u>5,659,830</u>
EXPENDITURES				
Current:				
Instructional	61,267	-	-	61,267
Occupancy	458,167	-	-	458,167
Office	107,997	-	-	107,997
Organizational development	27,623	-	-	27,623
Other	70,674	-	-	70,674
Professional services and fees	403,997	-	11,250	415,247
Employee compensation	3,267,159	158,998	-	3,426,157
Staff development	58,137	-	-	58,137
Transportation	455,513	-	-	455,513
Debt Service				
Principal	4,049,773	-	-	4,049,773
Interest	232,703	-	-	232,703
Capital outlay	62,025	185,368	-	247,393
Total expenditures	<u>9,255,035</u>	<u>344,366</u>	<u>11,250</u>	<u>9,610,651</u>
OTHER FINANCING SOURCES:				
Transfers out	(49,100)	-	-	(49,100)
Issuance of debt	4,876,335	-	-	4,876,335
Total other financing sources	<u>4,827,235</u>	<u>-</u>	<u>-</u>	<u>4,827,235</u>
NET CHANGE IN FUND BALANCES	876,414	-	-	876,414
FUND BALANCES, June 30, 2019	<u>269,528</u>	<u>-</u>	<u>-</u>	<u>269,528</u>
FUND BALANCES, June 30, 2020	<u>\$ 1,145,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,145,942</u>

See independent auditor's report and notes to schedules

STEM PREPARATORY ACADEMY  
NOTES TO SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES  
BY SCHOOL AND SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES BY SCHOOL  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

As of June 30, 2020, STEM Preparatory Academy operates the following charter schools in Nashville, Tennessee (collectively, the “Schools”):

STEM Preparatory Academy Middle School (grades five through eight)  
STEM Preparatory Academy High School (grades nine through twelve)

Allocations

Each school is a part of STEM Preparatory Academy. STEM Preparatory Academy maintains a central office for management and support of the schools. Most activities, including fundraising and administration are conducted centrally. Accordingly, all assets, liabilities, fund balance, revenues and expenses recorded on the central office general ledger have been allocated between the two schools. Any financial transactions and balances directly related to a school are recorded directly to that school. Financial transactions and balances of the central office are allocated to the schools using the following methodology:

- Cash transfers are made to fund any unrestricted operating deficits and growth needs
- Revenues from fundraising are allocated based primarily on enrollment
- Expenditures of shared services and administration are allocated based on enrollment.
- Capital outlay of shared facilities are allocated based on use by the schools.

Cash and Cash Equivalents

STEM Preparatory Academy operates a pooled-cash management program for the benefit of the schools. Cash balances reported within the schedule of assets, liabilities, and fund balance by school represent each school’s portion of the pooled-cash program, resulting from its operations. Also included in STEM Preparatory Academy Middle School’s cash balances are accounts received from central fundraising activities, which have not been transferred or utilized by the other school. STEM Preparatory Academy Middle School, as the first school in the STEM Preparatory Academy network, holds these funds for operational needs and future development.

STEM Preparatory Academy, under the direction of the Board of Directors, and within limits of grant agreements or donor restrictions, may make transfers among the schools as necessary to fund operations and growth. Accordingly, cash presented for each school may be transferred among the STEM Preparatory Academy schools.

See independent auditor’s report.



Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Board of Directors  
STEM Preparatory Academy  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of STEM Preparatory Academy, operating Tennessee Public Charter Schools STEM Preparatory Academy Middle School and STEM Preparatory Academy High School, ("STEM") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements and have issued our report thereon dated January 25, 2021.

### **Internal Control Over Financial Reporting**

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

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



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether STEM'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 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 STEM'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nashville, Tennessee  
January 25, 2021

STEM PREPARATORY ACADEMY  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2020

**FINANCIAL STATEMENT FINDINGS**

None reported.

**PRIOR YEAR AUDIT FINDINGS**

No prior audit findings.