

**STEM PREPARATORY ACADEMY**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2011**

# STEM PREPARATORY ACADEMY

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## Independent Auditor's Report

To the Board of Directors  
STEM Preparatory Academy

We have audited the accompanying financial statements of the governmental activities and each major fund of STEM Preparatory Academy (the "School") as of and for the period from March 22, 2010 (inception) to June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of STEM Preparatory Academy as of June 30, 2011, and the respective changes in financial position for the period March 22, 2010 through June 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STEM Preparatory Academy's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Crosslin + Associates, P.C.*

Nashville, Tennessee

October 30, 2013

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

Our discussion and analysis of STEM Preparatory Academy's ("School") annual financial performance provides an overview of the School's financial activities for the period ended from March 22, 2010 (inception) through June 30, 2011. This section should be read in conjunction with the financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

The School's governmental activities total assets were \$125,941 at June 30, 2011, while revenues for the School totaled \$239,217 during the period. The School's governmental activities total program costs for the period were \$107,012. Overall, the School's 2011 change in net assets for the period was \$54,570.

For the General Purpose School Fund there was a net change in fund balance of \$25,529. The General Purpose School Fund - fund balance at fiscal year-end was \$25,529.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**REPORTING THE SCHOOL AS A WHOLE**

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the year's activities. The Statement of Net Assets and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 8.

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

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 10. They provide detailed information about the School's most significant funds, not the School as a whole. Funds are established by the School as required to help manage money for particular purposes and compliance with various donor and grant provisions.

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

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school-wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Assets and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 11 and 13.

### **SCHOOL-WIDE FINANCIAL ANALYSIS**

The period ending June 30, 2011 was the School's first period of operations. The first period of operations consisted of planning for the coming academic year which began in fiscal year 2012. As such, the reported results in this analysis are not presented in comparative form.

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net assets of \$54,570. The School's net assets include \$85,588 of cash and cash equivalents. All cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2011, the School had invested a total of \$29,041 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment and leasehold improvements to the building. The School expects additional property and equipment investments in the 2011-2012 school year, as the first academic year begins. With the addition of students, there will be continued requirements for furniture, computers and equipment. The School facility is currently large enough to accommodate increased student enrollment in grades 5 through 6; to accommodate all grades; however, the School secured an additional space in August 2013 to house all grades at its full capacity, and secured financing in order to complete capital improvements necessary to house all grades at its full capacity.

The School rented educational space from a private party in 2011-2013. The current lease term ended August 1, 2013. Management secured a long-term lease with the Metropolitan Government of Nashville and Davidson County ("Metro"), which includes considerations for capital improvements. The School subsequently secured a construction loan to fund the improvements. The lease term is for 10 years ending July 2023 with two 5-year extensions. Additional information on the lease, construction loan, and property and equipment are located in the notes to the financial statements.

The School has no debt as of the end of June 30, 2011.

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

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

	<u>2011</u>
Current assets	\$ 96,900
Capital assets	<u>29,041</u>
Total assets	<u>125,941</u>
Current liabilities	<u>71,371</u>
Net assets:	
Invested in capital assets	29,041
Restricted - nonexpendable	180
Unrestricted	<u>25,349</u>
Total net assets	<u>\$ 54,570</u>

The School's total net assets increased \$54,570 during the period ending June 30, 2011. The increase in the School's net assets indicates that the School had more incoming revenues than outgoing expenses during the year.

Total revenues generated from government grants, governmental funds, and donations were \$239,217 during the period. The School's primary source of revenue was a planning grant for \$225,000. Contributions from individuals and organizations were \$14,217. At this time, the School is focusing on government grants and funding as their primary means of revenue, until they are more established in the community, and have built up potential donors. In the future, the School intends to solicit donors and build up contribution income. In addition, the School receives district funding based on student enrollment in fiscal year 2012.

Total expenses were \$184,647 during the period. The majority of these expenses related to planning and start-up costs for the anticipated school year.

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

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

	<u>2011</u>
Revenues	
Contributions	\$ 14,217
Federal and state grants	<u>225,000</u>
Total revenues	<u>239,217</u>
Expenses	
Instructional	22,993
Occupancy	37,297
Office	2,076
Organizational development	20,084
Professional services and fees	19,297
Employee compensation	79,331
Staff development	1,213
Transportation	1,825
Depreciation	<u>531</u>
Total expenses	<u>184,647</u>
Change in net assets	<u>\$ 54,570</u>

### FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 10, report a combined fund balance of \$25,529. All of the School's funds are in the General Purpose School Fund, which is the chief operating fund of the School.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the period-ended June 30, 2011, the differences consist of capital assets, which are not reported in the School's funds.

### SCHOOL MISSION AND MODEL

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



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

The School 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 School's model is designed to ensure students master basic skills in literacy and mathematics; strengthen critical-thinking skills; rigorously prepare for high school and college; and engage and lead peers in learning and active citizenship.

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

**AWARDS**

To support its formation, the School was awarded a competitive charter school start-up grant from the Tennessee Department of Education. The award totaled \$600,000 disbursed over the pre-operational year and first two years of operation.

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

Fiscal Year 2012 enrollment is projected to be over 100 students. The school anticipates receiving Basic Education Program (BEP) funding, as a result of beginning its first academic year with a 5<sup>th</sup> grade class.

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

STEM PREPARATORY ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 85,588
Other current assets	11,312
Capital assets, net	29,041
Total assets	<u>125,941</u>
<b>LIABILITIES</b>	
Accounts payable	46,702
Accrued expenses	24,669
Total liabilities	<u>71,371</u>
<b>NET ASSETS</b>	
Invested in capital assets	29,041
Restricted - nonexpendable	180
Unrestricted	25,349
Total net assets	<u><u>\$ 54,570</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE PERIOD FROM INCEPTION TO JUNE 30, 2011

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	\$ 22,993	\$ 22,993	\$ -	\$ -
Occupancy	37,297	29,838	7,459	-
Office	2,076	-	2,076	-
Organizational development	20,084	2,743	8,431	8,910
Professional services and fees	19,297	12,482	6,815	-
Employee compensation	79,331	37,318	42,013	-
Staff development	1,213	1,213	-	-
Transportation	1,825	-	1,825	-
Depreciation	531	425	106	-
Total expenses	184,647	107,012	68,725	8,910
PROGRAM REVENUES				
Operating grants and contributions	213,688	213,688	-	-
Net program expenses	<u>\$ (29,041)</u>	<u>\$ (106,676)</u>	<u>\$ 68,725</u>	<u>\$ 8,910</u>
GENERAL REVENUES				
Contributions	14,217			
Federal and state grants	11,312			
Total general revenues	<u>25,529</u>			
CHANGE IN NET ASSETS	54,570			
NET ASSETS, Inception	<u>-</u>			
NET ASSETS, June 30, 2011	<u>\$ 54,570</u>			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 85,588	\$ -	\$ 85,588
Other current assets	<u>11,312</u>	<u>-</u>	<u>11,312</u>
Total assets	<u>\$ 96,900</u>	<u>\$ -</u>	<u>\$ 96,900</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 46,702	\$ -	\$ 46,702
Accrued expenditures	<u>24,669</u>	<u>-</u>	<u>24,669</u>
Total liabilities	<u>71,371</u>	<u>-</u>	<u>71,371</u>
<b>FUND BALANCES</b>			
Nonspendable	180	-	180
Unassigned	<u>25,349</u>	<u>-</u>	<u>25,349</u>
Total fund balances	<u>25,529</u>	<u>-</u>	<u>25,529</u>
Total liabilities and fund balances	<u>\$ 96,900</u>	<u>\$ -</u>	<u>\$ 96,900</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2011

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

Total governmental fund balances above	\$ 25,529
Capital assets not reported above	<u>29,041</u>
Net assets of governmental activities in the statement of net assets	<u>\$ 54,570</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE PERIOD FROM INCEPTION TO JUNE 30, 2011

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 14,217	\$ -	\$ 14,217
District funding	-	-	-
Federal and state grants	<u>11,312</u>	<u>213,688</u>	<u>225,000</u>
Total revenues	<u>25,529</u>	<u>213,688</u>	<u>239,217</u>
EXPENDITURES			
Current:			
Instructional	-	22,993	22,993
Occupancy	-	37,297	37,297
Office	-	2,076	2,076
Organizational development	-	20,084	20,084
Professional services and fees	-	19,297	19,297
Employee compensation	-	79,331	79,331
Staff development	-	1,213	1,213
Transportation	-	1,825	1,825
Capital outlay	<u>-</u>	<u>29,572</u>	<u>29,572</u>
Total expenditures	<u>-</u>	<u>213,688</u>	<u>213,688</u>
NET CHANGE IN FUND BALANCES	25,529	-	25,529
FUND BALANCES, Inception	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, June 30, 2011	<u>\$ 25,529</u>	<u>\$ -</u>	<u>\$ 25,529</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - CONTINUED  
GOVERNMENTAL FUNDS  
FOR THE PERIOD FROM INCEPTION TO JUNE 30, 2011

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

Net change in fund balances as reported in the governmental funds statements	\$ 25,529
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	29,572
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	<u>(531)</u>
Change in net assets of governmental activities	<u>\$ 54,570</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

STEM Preparatory Academy (the “School”) was incorporated March 22, 2010 (inception), as a Tennessee nonprofit corporation. Pursuant to Section 6(b)(1)(a) of the Tennessee Public Charter School Act of 2002 (the Act), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state’s public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County on November 23, 2010, to operate a charter school in Nashville, Tennessee. The School began classes in July 2012 with a fifth grade class and will add an additional grade each year culminating with the addition of an eighth grade in the 2014-2015 fiscal year.

Basic Financial Statements

*School-wide financial statements*

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

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

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



STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

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

The emphasis in fund financial statements is on the major funds. The School has no nonmajor funds for the period ended June 30, 2011. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The School reports the following major governmental funds:

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

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

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

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

*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  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

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 the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

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

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

Basis of Accounting

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

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

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

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

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

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

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Receivables

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

Capital Assets

Property and equipment are recorded at acquisition cost, if purchased, or the fair value on the date received, if donated. The cost of routine maintenance and repairs is expensed as incurred. Expenditures, which materially extend the economic lives, change capacities or improve the efficiency of the related assets are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss, if any, is included in the statement of activities. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 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.

Income Taxes

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

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Grants

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

Fair Value of Financial Instruments

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

Interfund Balances

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

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

B. CAPITAL ASSETS

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

	<u>Balance</u> <u>March 22, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Office equipment	\$ -	\$ 14,206	\$ -	\$ 14,206
Furniture and fixtures	-	4,875	-	4,875
Computer equipment	-	10,491	-	10,491
Subtotal	-	29,572	-	29,572
Accumulated depreciation	-	( 531)	-	( 531)
Capital assets, net	<u>\$ -</u>	<u>\$ 29,041</u>	<u>\$ -</u>	<u>\$ 29,041</u>

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$ 425
Administration	<u>106</u>
	<u>\$ 531</u>

C. LEASING EXPENSES

The School entered into a two-year lease agreement with a private party in January 2011 for facilities used to provide educational services that expired August 1, 2013. The arrangement required the School to pay rent in monthly installments of \$7,445 through May 2013, and increasing to \$7,668 thereafter. The School verbally agreed to extend their lease through mid-August as they prepared their new space to open the 2013-2014 academic year.

Under the terms of the lease, minimum required lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 89,340
2013	89,553
2014	<u>7,668</u>
	<u>\$186,561</u>

STEM PREPARATORY ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

D. FUND BALANCES

The Federal and State Grants Fund includes fund balance amounts presented as nonspendable as they are not in spendable form.

E. CONCENTRATIONS

The School received 94% of its funding for operations from a federal grant. The grant was obtained to aid in planning for the School's first three years of operations. Funding for the period ended June 30, 2011, was \$225,000.

F. SUBSEQUENT EVENTS

In July 2011, the School secured a \$150,000 line of credit with a bank. The line expired July 11, 2013 and was subsequently extended through July 2014.

In May 2013, the School 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 the School to pay rent in monthly installments of \$6,500 through July 2014, increasing 2% per year thereafter. The agreement also entitles the School to credit against the payment of rent certain tenant improvements approved in advance by Metro. The School estimates tenant improvements at a cost of \$629,641 to be funded by a construction loan.

Effective July 2, 2013, the School entered into a construction loan agreement with a private party to fund the tenant improvement costs related to the lease of a new educational facility in South Nashville. Total principal on the note is \$629,641 with a fixed interest rate of 4.75% per annum. Monthly interest payments began August 1, 2013, with monthly principal and interest payments of \$8,850 commencing November 1, 2013. The final principal and interest payment of \$6,469 is due on October 1, 2020. The note is collateralized by substantially all of the School's assets.

## **SUPPLEMENTARY INFORMATION**

STEM PREPARATORY ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
PERIOD ENDED FROM INCEPTION TO JUNE 30, 2011

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	Balance March 22, 2010 (Receivable) <u>Payable</u>
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Charter School Programs (CSP)			
Planning and Initial Implementation Grant	84.282B	N/A	\$ <u>-</u>
			<u>\$ -</u>

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



<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2011 (Receivable) Payable
<u>\$225,000</u>	<u>\$225,000</u>	\$ -
<u><u>\$225,000</u></u>	<u><u>\$225,000</u></u>	<u><u>\$ -</u></u>

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

We have audited the financial statements of the governmental activities and each major fund of STEM Preparatory Academy (the "School") as of and for the period ended from March 22, 2010 (inception) to June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 30, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### **Compliance and Other Matters**

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

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

*Crosslin + Associates, P.C.*

Nashville, Tennessee

October 30, 2013