

STEM PREPARATORY ACADEMY
AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016

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

STEM PREPARATORY ACADEMY

Table of Contents

	<u>Page</u>	
INTRODUCTORY SECTION	1	
INDEPENDENT AUDITOR’S REPORT	2 - 4	
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)	5 - 15	
BASIC FINANCIAL STATEMENTS		
Government-wide financial statements		
Statement of net position	16	
Statement of activities.....	17	
Fund financial statements		
Balance sheet - governmental funds	18 - 19	
Statement of revenues, expenditures and changes in fund balances - governmental funds	20 - 21	
Notes to financial statements	22 - 43	
REQUIRED SUPPLEMENTARY INFORMATION		
Schedule of the proportionate share of the net pension liability (asset)	44 - 45	
Schedule of employer contributions	46	
OTHER INFORMATION		
Schedule of expenditures of federal awards and state financial assistance	47	
Schedule of assets, liabilities and fund balances by school	48 - 49	
Schedule of revenues, expenditures and changes in fund balances by school.....	50 - 51	
Notes to schedules by school	52	
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 <i>GOVERNMENT AUDITING STANDARDS</i>		53 - 54
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	55	

STEM PREPARATORY ACADEMY
INTRODUCTORY SECTION

BOARD OF DIRECTORS

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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, 2016, 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, 2016, 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 American require that the management's discussion and analysis on pages 5 - 15 and the schedule of proportionate share of the net pension liability (asset) and schedule of employer contributions on pages 44 - 46 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 assets, liabilities and fund balances by school and schedule of revenues, expenditures and changes in fund balances by school on pages 48 - 51 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 are not a required part of the basic financial statements.



To the Board of Directors
STEM Preparatory Academy

The schedule of assets, liabilities, and fund balances by school, the schedule of revenues, expenditures and changes in fund balances by school and schedule 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 February 8, 2017, 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 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* in considering STEM's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
February 8, 2017

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, 2016 as compared to 2015. 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 \$2,848,590 in 2016 or 112.7%, while total liabilities and deferred inflows of resources increased \$2,087,918 or 107.8%. Both increases are attributable to increases in capital assets and long-term debt with the leasehold improvements to the middle school and high school. Total revenues for STEM increased by \$1,593,911 or 34.2%. STEM's governmental activities total program costs for 2016 increased \$689,921 or 31.9%. Overall, STEM's 2016 change in net position, \$760,672, was \$239,256 more than the prior year. The increase in total revenues and costs over the prior year was directly related to the continued growth of STEM, including the addition of the inaugural 9th grade class at the high school.

For the General Purpose School Fund there was a decrease in fund balance of \$(505,521). The General Purpose School Fund - fund balance at fiscal year-end was \$(61,169). The decrease in fund balance is due to an increase in capital outlay related to the construction buildout.

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 16.

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

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's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 18. 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 19 and 21.

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 \$1,351,061. STEM's net position includes \$1,031,454 of cash and cash equivalents. All cash is available to meet STEM's ongoing operating activities and growth strategy.

As of June 30, 2016, STEM had invested a total of \$3,898,889 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 buildings. STEM expects additional property and equipment investments in the 2016-2017 school year, as student enrollment increases with the addition of a 10th grade class at the high school. With the additional students, there will be continued requirements for furniture, computers and equipment.

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

In August of 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 a construction loan to fund improvements to the schools. As of June 30, 2016, STEM has an outstanding principal balance of \$1,200,220 on their construction loans. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. STEM entered into an additional equipment loan in June 2016 that has an outstanding principal of \$400,000 as of June 30, 2016. In addition, STEM has made improvements to the Middle School to house the Newcomer Academy program, with reimbursement totaling \$730,000 from Metro, as well as improvements to a new building to house the High School. Additional information on the lease, construction loan, and property and equipment are located in the notes to the financial statements.

A schedule of STEM's net position as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,129,698	\$1,034,603
Capital assets	<u>3,898,889</u>	<u>1,264,408</u>
Total assets	<u>5,028,587</u>	<u>2,299,011</u>
Deferred outflows of resources	<u>346,787</u>	<u>227,773</u>
Current liabilities	1,528,916	496,871
Noncurrent liabilities	<u>1,442,597</u>	<u>725,218</u>
Total liabilities	<u>2,971,513</u>	<u>1,222,089</u>
Deferred inflows of resources	<u>1,052,800</u>	<u>714,306</u>
Net position:		
Net investment in capital assets	2,298,669	414,443
Unrestricted	<u>(947,608)</u>	<u>175,946</u>
Total net position	<u>\$ 1,351,061</u>	<u>\$ 590,389</u>

STEM had deferred inflows of \$80,233 for future rent, \$657,000 for a tenant improvement reimbursement, and \$315,567 related to pensions at June 30, 2016. Deferred outflows totaling \$346,787 related to pensions.

STEM's total net position increased \$760,672 during the 2016 fiscal year. The increase in net position indicates that STEM had more incoming revenues than outgoing expenses during the year and was the result of continued expansion and holding more cash at year-end.

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

Total revenues generated from government grants, governmental funds, and donations were \$6,197,730 during the 2016 fiscal year which is \$1,567,171 or 33.8% increase over 2015. Contributions from individuals and organizations were \$312,921 higher than 2015. The increase was due to a focused effort to increase contribution and private grant income. STEM realized an overall decrease in federal funding as compared to 2015 as a result of a one-time start up grant awarded in 2015 for start-up costs related to the High School. This decrease was offset by an increase in the Title I and IDEA programs due to increased enrollment. Finally, district funding was awarded in 2016 for STEM's fifth academic year. The main driver of this award is student enrollment, which increased due to the addition of a 9th grade class. STEM focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to start their fourth academic year with an enrollment of 540.

Total expenses were \$5,491,418 during the 2016 fiscal year, which was \$1,354,655 higher than 2015. The majority of this increase is directly related to hiring of additional teachers, instructional expenses related to the addition of a 9th grade class, and occupancy and expansion costs related to the additional growth of the middle and high schools.

A schedule of STEM's revenue and expenses for the years ended June 30, 2016 and 2015, is as follows. The schedule is for the organization as a whole, not for the governmental funds.

	<u>2016</u>	<u>2015</u>
Revenues		
Contributions	\$ 588,200	\$ 275,279
District funding	5,081,024	3,773,406
Federal and state grants	528,506	581,874
Other	<u>54,360</u>	<u>27,620</u>
Total revenues	<u>6,252,090</u>	<u>4,658,179</u>
Expenses		
Instructional	136,224	96,000
Food Services	225,651	191,309
Occupancy	242,119	227,802
Office	162,359	122,655
Organizational development	112,296	74,977
Other	96,080	61,359
Service fees	483,610	162,182
Employee compensation	3,244,184	2,634,773
Staff development	24,430	41,145
Transportation	444,319	320,727
Interest	60,146	37,449
Depreciation and amortization	<u>260,000</u>	<u>166,385</u>
Total expenses	<u>5,491,418</u>	<u>4,136,763</u>
Change in net position	<u>\$ 760,672</u>	<u>\$ 521,416</u>

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

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

STEM's funds, as presented on the Balance Sheet on page 18, report a combined fund balance of \$(61,169). All of STEM's total funds are in the General Purpose School Fund, which is the chief operating fund of the organization. STEM has one other major fund consisting of the Federal and State Grants Fund.

Due to the different basis of accounting, there is a difference between the amounts reported under STEM's funds and the amounts reported as government-wide. For the year-ended June 30, 2016, the differences consist of capital assets, long-term debt, tenant improvement allowances, and pensions which are not reported in STEM's funds.

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 550 students within our two schools, STEM Prep Middle (5-8) and STEM Prep High (9+), 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 21st 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 Prep 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 Prep 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 Prep 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 Prep's student body is among the most diverse in the state of Tennessee. Families originate from all corners of the globe, speaking nineteen 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 92% of STEM Prep's students qualify for free or reduced-price meals, while 80% have been classified as English Learners during their academic career.

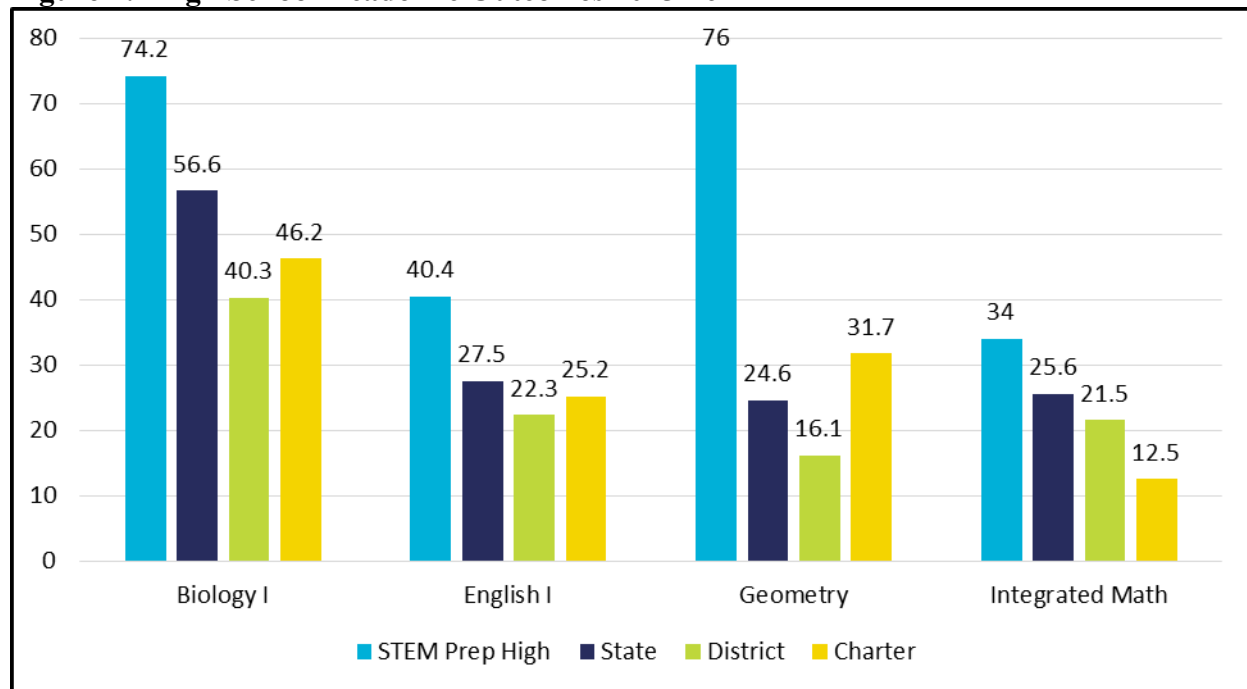
STEM PREPARATORY ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

Since opening its doors in July 2011, STEM Prep has been honored with numerous awards for outstanding student and teacher performance, including: **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.**

Academic Results

Since its inception, STEM Prep has consistently outperformed peer schools both locally and statewide in all subject areas. The Tennessee Department of Education has regularly designated STEM Prep as a Reward School for its academic performance. Reward schools represent the top 5% of all schools in the state. In addition, the school has received the designation as a Metropolitan Nashville Public Schools Excelling School for achieving significant gains for students. STEM Prep has received this designation since the inception of the district’s Academic Performance Framework in 2012. The tradition of exemplary academic performance continued in 2015-2016 at both the high school and middle school levels.

Figure 1: High School Academic Outcomes 2015-16

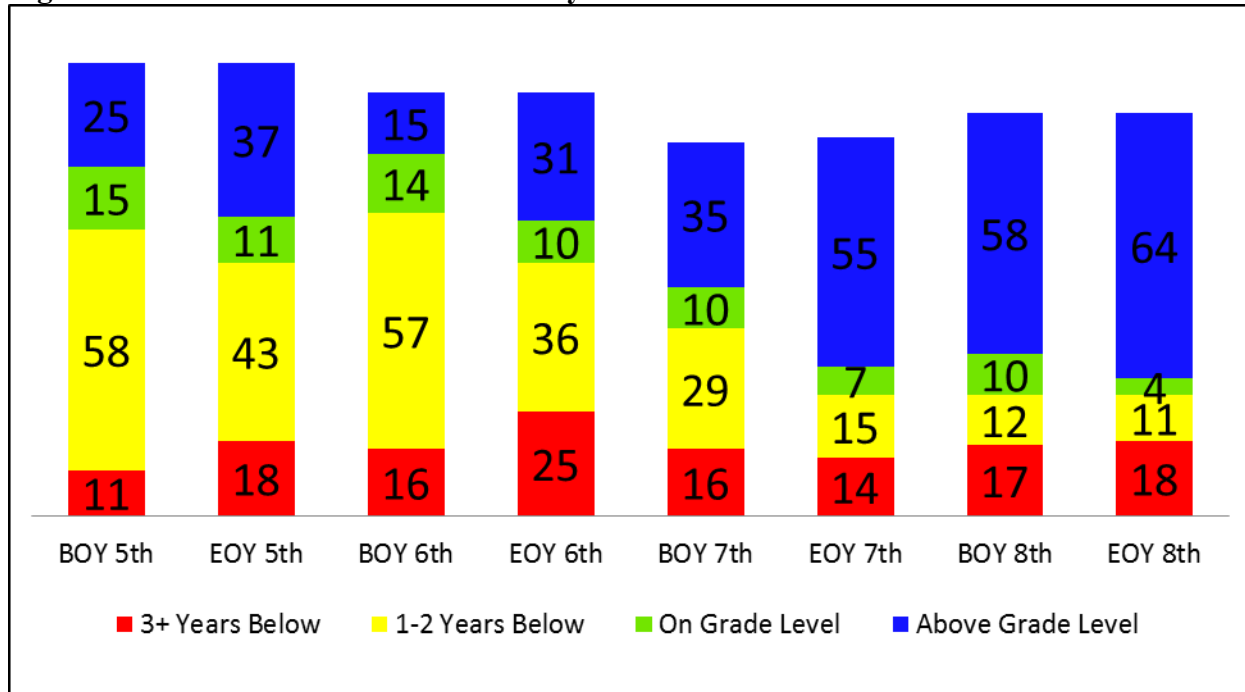


By wide margins, STEM Prep High outperformed state, district, and charter school peers on state-administered standardized tests in its first year of operations. Moreover, of all public schools in Davidson County, to include academic magnets, STEM Prep High ranked first in geometry, as well as third in integrated math, fourth in biology, and fifth in English.

Though the state of Tennessee suspended TNReady assessments for elementary and middle grades in 2016, STEM Prep Middle continued to increase the number of students performing at or above grade level, as measured by the national norm-referenced exams, Measures of Academic Progress (MAP), as the school has done in all prior years of existence.

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

Figure 2: Middle School Math Proficiency 2015-16

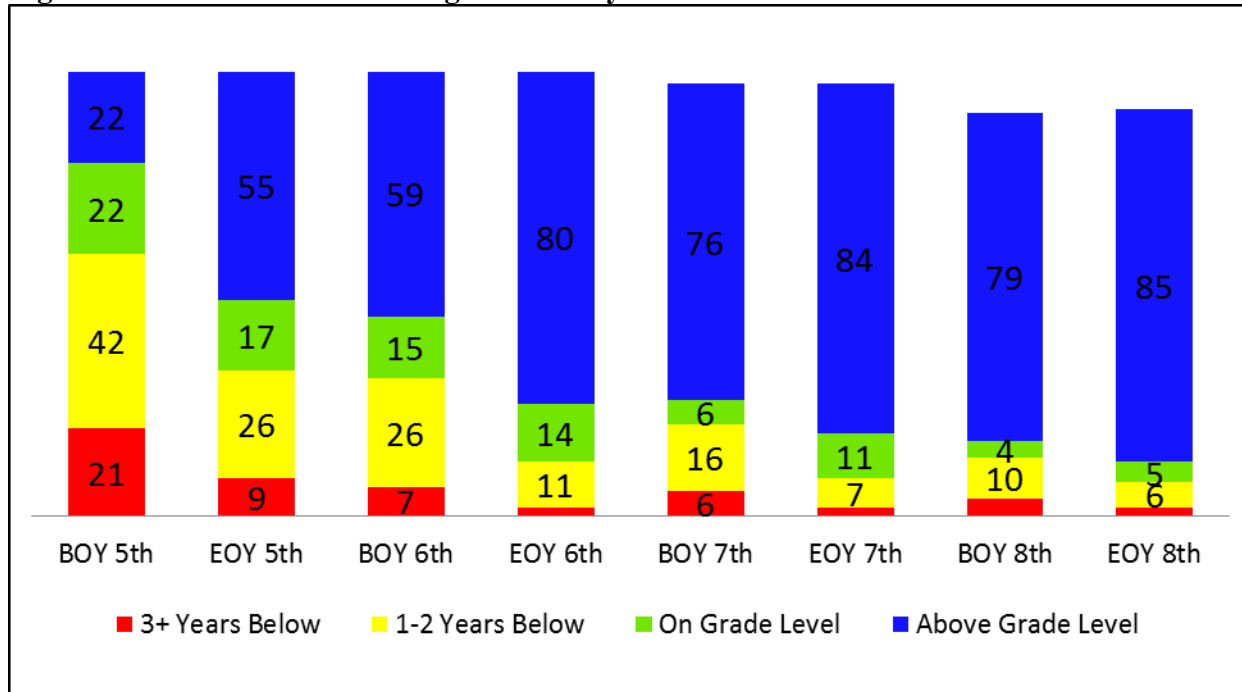


Overall, the school increased middle school math performance by 20%, as measured by the number of students on or above grade level. The number of STEM Prep students performing above grade level in math increased for every middle school grade by an average of 56%.

STEM Prep's performance in middle school reading follows a similarly strong pattern. On a school-wide basis, STEM Prep increased the number of students reading on or above grade level by 24%. The number of students reading above grade level increased in every grade by an average of 51%.

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

Figure 3: Middle School Reading Proficiency 2015-16



Nashville Newcomer Academy: Laying the Groundwork

In a first-of-its-kind partnership, STEM Prep is launching The Nashville Newcomer Academy with Metropolitan Nashville Public Schools and the Mayor's Office to serve the youngest New Americans with the most urgent needs. The project is designed to address the unique needs of English Learners, specifically our city's newcomer students, through direct service delivery and bolster capacity to advance achievement of this population through a demonstration school model and professional development for schools serving high concentrations of our New American children and young people.

STEM Prep aims to launch the Nashville Newcomer Academy in 2016-2017 and will serve approximately 100 newcomer students in grades five through eight. 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.

Fiscal year 2016 served as a critical planning year for the Nashville Newcomer Academy, as STEM Prep established the foundation for a successful launch in FY2017. Leadership developed a robust curriculum and designed both academic and social-emotional programming to address the urgent needs of our city's newcomer students.

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

Student and Family Counseling Program

Through the school's dynamic counseling program, STEM Prep 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 Prep'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 Prep aims to address the mental health and emotional needs our students and families present and pose material challenges to daily classroom learning. In 2015-2016, the impact of the counseling program was broad and deep, providing support to hundreds of families.

Figure 4: Counseling Services 2015-16

Type of service	Number of people	Number of sessions	Approximate Hours
Crisis intervention or other immediate services	211	350	263
Short term counseling services:	33	173	130
Long term counseling services:	90	1,159	1,290
Workshops & Groups	14	15	11
Interpretation services	55	55	63
TOTAL	403	1,752	1,757

IMPACT: The First Five Years

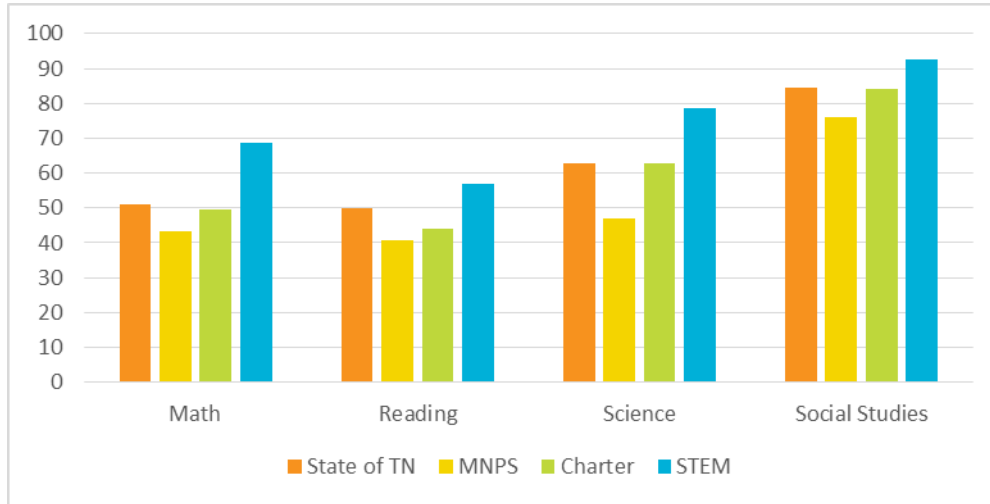
In 2015-2016, STEM Prep celebrated its fifth anniversary of serving the families of the south Nashville community. Though much has changed since the inaugural year, our commitment to our students and their families continues to persist. STEM Prep serves a unique, highly diverse population and has established a track record of outstanding academic results, achieved with unmatched fiscal efficiency.

Consistent Academic Results

During the school's first five years, STEM Prep established a tradition of outperforming peer schools throughout the state across all subject areas, ranking first in math growth and third in reading growth.

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

Figure 5: Academic Achievement 2011-2015

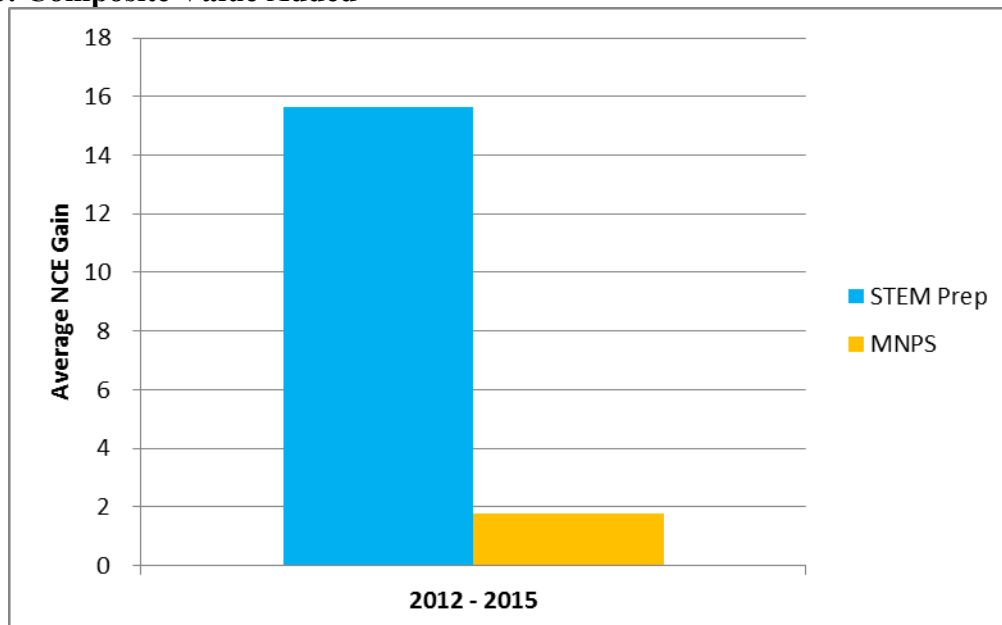


Since its inception, STEM Prep has accounted for 100% of the “excelling” seats in the cluster, as determined by the school district’s Academic Performance Framework. Moreover, English Learners achieve language proficiency on average in one to two years at STEM, compared to five to seven years in district EL programs.

Investment

STEM Prep has consistently achieved more with less and offers the opportunity for a high-leverage investment in the children of south Nashville. The school has outperformed district peer schools on both a nominal and real basis. During the last five years, STEM Prep has added educational value (as measured by the Tennessee Department of Education) at a rate of eight times that of district middle schools.

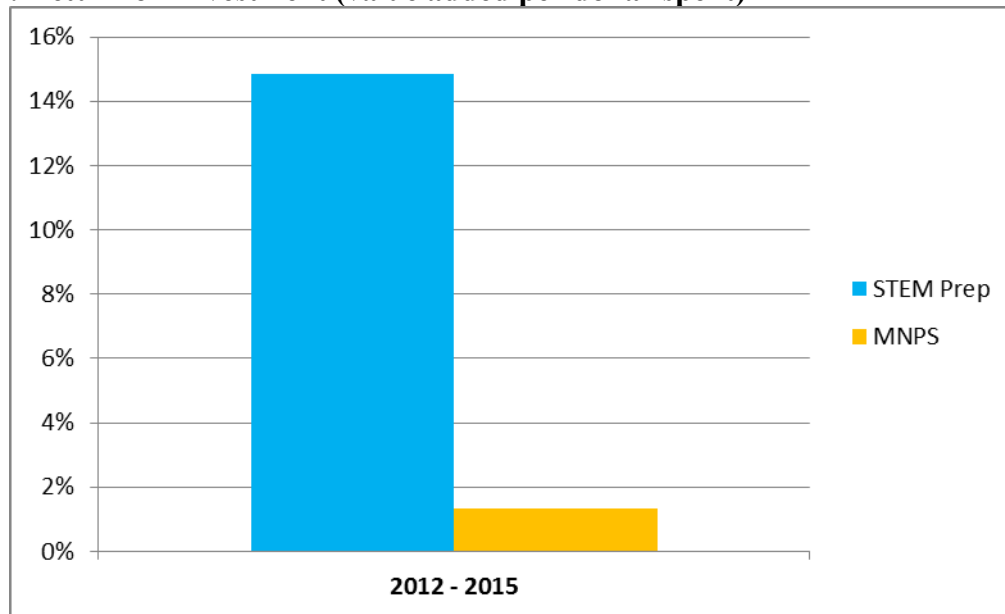
Figure 6: Composite Value Added



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

When considering the resources invested to achieve those academic gains, the contrast in performance is even more stark. Since its inception, STEM Prep has added educational value per dollar spent at a rate eleven times that of the district. Our organization sets a high bar in the Nashville community for leveraging every dollar spent with maximum efficiency.

Figure 7: Return on Investment (value added per dollar spent)



STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal Year 2017 enrollment is projected to be over 520 students in the middle school (including the Newcomer Academy) and 250 students in the high school. Additionally, FY2017 will represent the first year of operations for Nashville Newcomer Academy. The school expects per pupil BEP funding to remain flat for the 2016-17 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.

STEM PREPARATORY ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,031,454
Accounts receivable	51,948
Other current assets	46,296
Capital assets, net	<u>3,898,889</u>
Total assets	<u>5,028,587</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>346,787</u>
LIABILITIES	
Accounts payable	1,039,956
Accrued expenses	150,911
Long-term debt due within one year	338,049
Long-term debt due in more than one year	1,262,171
Net pension liability	<u>180,426</u>
Total liabilities	2,971,513
DEFERRED INFLOWS OF RESOURCES	
Deferred rent	80,233
Tenant improvement allowance	657,000
Pensions	<u>315,567</u>
Total deferred inflows of resources	<u>1,052,800</u>
NET POSITION	
Net investment in capital assets	2,298,669
Unrestricted	<u>(947,608)</u>
Total net position	<u><u>\$ 1,351,061</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	\$ 136,224	\$ 136,224	\$ -	\$ -
Food services	225,651	225,651	-	-
Occupancy	242,119	193,695	48,424	-
Office	162,359	-	162,359	-
Organizational development	112,296	-	112,296	-
Other	96,080	95,475	605	-
Professional services and fees	483,610	-	483,610	-
Employee compensation	3,244,184	2,527,342	716,842	-
Staff development	24,430	15,478	8,952	-
Transportation	444,319	444,319	-	-
Interest	60,146	-	60,146	-
Depreciation	260,000	208,000	52,000	-
Total expenses	5,491,418	3,846,184	1,645,234	-
PROGRAM REVENUES				
Operating grants and contributions	421,506	421,506	-	-
Capital grants and contributions	107,000	107,000	-	-
Net program expenses	<u>\$ 4,962,912</u>	<u>\$ 3,317,678</u>	<u>\$ 1,645,234</u>	<u>\$ -</u>
GENERAL REVENUES				
Contributions	588,200			
District funding	5,081,024			
Other	54,360			
Total general revenues	<u>5,723,584</u>			
CHANGE IN NET POSITION	760,672			
NET POSITION, June 30, 2015	<u>590,389</u>			
NET POSITION, June 30, 2016	<u>\$ 1,351,061</u>			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,031,454	\$ -	\$ 1,031,454
Accounts receivable	-	51,948	51,948
Due from other funds	51,948	-	51,948
Other current assets	<u>46,296</u>	<u>-</u>	<u>46,296</u>
Total assets	<u>\$ 1,129,698</u>	<u>\$ 51,948</u>	<u>\$ 1,181,646</u>
LIABILITIES			
Accounts payable	\$ 1,039,956	\$ -	\$ 1,039,956
Accrued expenditures	150,911	-	150,911
Due to other funds	<u>-</u>	<u>51,948</u>	<u>51,948</u>
Total liabilities	1,190,867	51,948	1,242,815
FUND BALANCES (DEFICIT)			
Nonspendable	46,296	-	46,296
Unassigned	<u>(107,465)</u>	<u>-</u>	<u>(107,465)</u>
Total fund balances (deficit)	<u>(61,169)</u>	<u>-</u>	<u>(61,169)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,129,698</u>	<u>\$ 51,948</u>	<u>\$ 1,181,646</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2016

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	\$ (61,169)
Capital assets not reported in the balance sheet	3,898,889
Pension amounts not reported in the balance sheet	
Net pension liability	(180,426)
Deferred inflows of resources for pensions	(315,567)
Deferred outflows of resources for pensions	346,787
Long-term debt	(1,600,220)
Deferred inflows of resources related to deferred rent	(80,233)
Deferred inflows of resources for tenant improvements	<u>(657,000)</u>
Net position of governmental activities in the statement of net position	<u>\$ 1,351,061</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, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 588,200	\$ -	\$ 588,200
District funding	5,081,024	-	5,081,024
Federal and state grants	-	528,506	528,506
Other income	54,360	-	54,360
Total revenues	<u>5,723,584</u>	<u>528,506</u>	<u>6,252,090</u>
EXPENDITURES			
Current:			
Instructional	136,224	-	136,224
Food Services	90,386	135,265	225,651
Occupancy	275,797	-	275,797
Office	162,359	-	162,359
Organizational development	112,296	-	112,296
Other	96,080	-	96,080
Professional services and fees	483,610	-	483,610
Employee compensation	3,036,232	286,241	3,322,473
Staff development	24,430	-	24,430
Transportation	444,319	-	444,319
Debt service:			
Principal	364,231	-	364,231
Interest	60,146	-	60,146
Capital outlay	<u>2,787,481</u>	<u>107,000</u>	<u>2,894,481</u>
Total expenditures	<u>8,073,591</u>	<u>528,506</u>	<u>8,602,097</u>
OTHER FINANCING SOURCES:			
Issuance of debt	1,114,486	-	1,114,486
Capital contribution	<u>730,000</u>	<u>-</u>	<u>730,000</u>
Total other financing sources	<u>1,844,486</u>	<u>-</u>	<u>1,844,486</u>
NET CHANGE IN FUND BALANCES	(505,521)	-	(505,521)
FUND BALANCES, June 30, 2015	<u>444,352</u>	<u>-</u>	<u>444,352</u>
FUND BALANCES (DEFICIT), June 30, 2016	<u><u>\$ (61,169)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (61,169)</u></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, 2016

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	\$ (505,521)
Issuance of debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(1,114,486)
Capital contribution recorded as revenue in the governmental fund statements, but reflected as tenant improvement allowance in the school-wide statements.	(730,000)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	2,894,481
Principal payments on long-term debt	364,231
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation and amortization expense	(260,000)
Occupancy expense increase associated with deferred rent and tenant improvement allowance	33,678
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>78,289</u>
Change in net position of governmental activities	<u>\$ 760,672</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 9th grade class and will add an additional grade each year, culminating with a 12th 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, 2016

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, 2016. 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 focus of the governmental fund 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, 2016

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, 2016

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 \$80,233 in deferred rent and \$657,000 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, 2016

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, 2016

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Interfund balance of \$51,948 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, from time to time, maintains deposits in excess of FDIC coverage. STEM's financial institution is a member of the Tennessee Bank Collateral Pool, which helps the organization to mitigate custodial risk.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2016</u>
<i>Nondepreciable</i>				
Construction in progress	\$ 71,366	\$ 2,560,745	\$(668,024)	\$ 1,964,087
<i>Depreciable</i>				
Office equipment	68,508	3,720	-	72,228
Furniture and fixtures	174,530	58,679	-	233,209
Computer equipment	192,059	130,259	-	322,318
Leasehold improvements	<u>1,041,153</u>	<u>809,102</u>	<u>-</u>	<u>1,850,255</u>
Total depreciable capital assets	1,476,250	1,001,760	-	2,478,010
Accumulated depreciation	<u>(283,208)</u>	<u>(260,000)</u>	<u>-</u>	<u>(543,208)</u>
Capital assets, net	<u>\$ 1,264,408</u>	<u>\$ 3,302,505</u>	<u>\$(668,024)</u>	<u>\$ 3,898,889</u>

Construction in progress included leasehold improvements to expand the high school to accommodate the 9th grade. Estimated costs to complete construction are \$2,200,000 at June 30, 2016.

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$208,000
Administration	<u>52,000</u>
	<u>\$260,000</u>

D. LINE-OF-CREDIT

STEM has a \$325,000 line-of-credit with a bank, which expired in July 2016. After year-end, the line-of-credit was extended to July 2017. As of June 30, 2016, there were no outstanding amounts under the line.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

E. LONG-TERM DEBT

In July 2013, STEM entered into a \$629,641 line of credit agreement to fund the leasehold improvements of the school's facilities. The loan is collateralized by a life insurance policy and 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 \$8,850 through October 2020. The outstanding principal balance at June 30, 2016 totaled \$409,923.

In April 2014, STEM entered into a \$225,000 line of credit agreement to fund additional leasehold improvements to the school's facilities. The loan is collateralized by a life insurance policy and substantially all the assets of STEM. The loan accrues interest at a fixed rate of 4.75%. Interest only payments were due monthly through November 1, 2014. Beginning December 1, 2014, principal and interest are due in monthly installments of \$3,359 through May 2021. The outstanding principal balance at June 30, 2016 totaled \$176,312.

In June 2015, STEM entered into a \$650,000 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 5.00%. Principal and interest are due in monthly installments of \$12,255 through June 2020. The outstanding principal balance at June 30, 2016 totaled \$526,805.

In June 2015, STEM entered into a \$100,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by a 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 outstanding principal balance at June 30, 2016 totaled \$87,180.

In June 2015, STEM entered into a \$110,000 debt agreement to fund the purchases of additional equipment. The debt is collateralized by all of the equipment purchased using the funds. The loan accrues interest at a fixed rate of 4.00% annually. The debt was paid in full in March 2016.

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, 2016 totaled \$400,000.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

E. LONG-TERM DEBT - Continued

The following is a summary of changes in STEM's long-term debt for governmental activities for the fiscal year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Contribution/</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>
Note payable - bank	\$496,262	\$ -	\$ 86,339	\$ 409,923
Note payable - bank	208,189	-	31,877	176,312
Note payable - bank	35,014	614,986	123,195	526,805
Note payable - bank	500	99,500	12,820	87,180
Note payable - bank	-	400,000	-	400,000
Note payable - bank	<u>110,000</u>	<u>-</u>	<u>110,000</u>	<u>-</u>
Total	<u>\$849,965</u>	<u>\$1,114,486</u>	<u>\$364,231</u>	<u>\$1,600,220</u>

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2017	\$ 65,643	\$ 338,049
2018	49,963	353,728
2019	33,539	370,152
2020	16,335	387,651
2021	<u>3,075</u>	<u>150,640</u>
	<u>\$168,555</u>	<u>\$1,600,220</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 \$39,323 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$80,233 at June 30, 2016, 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, 2016. On the governmental funds financial statements, the leasehold improvement allowance, all of which was received during the period, was recognized as a capital contribution. STEM's rent expense for the period ended 2016, net of the amortization of related deferred inflows, totaled \$(33,677).

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 June 2016, STEM entered into a lease agreement for copier equipment. The lease term is for 3 years commencing July 1, 2016. The lease requires STEM to pay monthly lease installments of \$6,126 through June 2019.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

F. LEASING EXPENSES - Continued

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

Year Ending June 30,

2017	\$ 516,155
2018	519,092
2019	522,088
2020	466,595
2021	469,712
2022 - 2026	<u>1,972,723</u>
	<u>\$4,466,365</u>

G. FUND BALANCES

The General Purpose School Fund includes a deficit fund balance as of June 30, 2016, resulting from the build-out of the high school. Revenues received in future years as the high school increases enrollment with the addition of the 10th, 11th, and 12th grades are expected to provide enough resources to increase fund balances to a positive position.

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

H. CONCENTRATIONS

STEM received 81% 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, 2016, was \$5,081,024. Outside fundraising for capital needs is on-going 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, 2016

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 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. 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

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 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 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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

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, 2016, to the Teacher Legacy Pension Plan were \$64,966 which is 9.04 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, approved by the TCRS Board of Trustees, is reached. Employer contributions for the year ended June 30, 2016 to the Teacher Retirement Plan were \$50,547, which is 4.00 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.

(B) Pension Liabilities (Assets) - TCRS Plans

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

Pension Liability (Asset)

Teachers Legacy Pension Plan

STEM reported a liability of \$9,532 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability 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 was based on the STEM's contributions to the pension plan relative to the contributions of all participating LEA's. At the measurement date of June 30, 2015, STEM's proportion was 0.0272 percent. The proportion measured as of June 30, 2014 was 0.02327 percent of the net pension asset.

Teachers Retirement Plan

At June 30, 2016, STEM reported an asset of (\$11,991) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension 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 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, 2015, STEM's proportion was 0.29806 percent.

Actuarial Assumptions

Teachers Legacy Pension Plan and Teachers Retirement Plan

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012, actuarial experience study and included some adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate

Teachers Legacy Pension Plan and Teachers Retirement Plan

The discount rate used to measure the total pension liability was 7.5 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 the all 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.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

II. 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.

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.

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.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

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 15.510 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, 2016 were \$70,794.

(B) Pension Liabilities - Metro Plan

Pension Liability

STEM reported a liability of \$182,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. STEM's proportion of the net pension liability was based on the STEM's employee contributions to the pension plan during the year ended June 30, 2016, relative to all contributions for 2016. At the June 30, 2016 measurement date, STEM's proportionate share was 0.08263 percent. At the June 30, 2015 measurement date, STEM's proportionate share was 0.0744 percent.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2016. Actuarial assumptions are summarized below:

Inflation	2.6 percent
Salary increases	4.0 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	1.5 percent

Mortality rates were based on the 110% RP-2000 Healthy Annuitant Mortality Table for Males and Females, as determined by the period actuarial experience study. The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period 2007 to 2012.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class from historical returns and consensus expectations of future returns. These ranges 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. Best estimates of arithmetic real rates of return for each major asset class included in the Metro Plan's target asset allocation are summaries in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Domestic equity	6.60%	20.00%
International equity	10.10%	13.00%
Equity hedge	5.80%	7.00%
Fixed income	1.80%	21.00%
Fixed income alternatives	5.60%	15.00%
Real assets	6.10%	12.00%
Private equity	7.60%	12.00%
		100%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 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, 2016:

TCRS Legacy Plan	\$ 9,532
TCRS Retirement Plan	(11,991)
Metro Plan	<u>182,885</u>
Net pension liability	<u>\$ 180,426</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - 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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5)%</u>	Current Discount Rate <u>(7.5)%</u>	1% Increase <u>(8.5)%</u>
Proportionate share of the net pension liability (asset):			
TCRS Legacy Plan	\$ 649,842	\$ 9,532	\$(520,570)
TCRS Retirement Plan	2,126	(11,991)	(22,344)
Metro Plan	<u>476,858</u>	<u>182,885</u>	<u>81,824</u>
Total	<u>\$1,128,826</u>	<u>\$ 180,426</u>	<u>\$(461,090)</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

For the year ended June 30, 2016, STEM recognized pension expense (negative pension expense) as follows:

TCRS Legacy Plan	\$(70,007)
TCRS Retirement Plan	(34,883)
Metro Plan	<u>26,551</u>
Negative pension expense	<u>\$(78,339)</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2016, 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	\$ 7,650	\$148,363
TCRS Retirement Plan	-	3,903
Metro Plan	-	59,321
Net difference between projected and actual earnings on pension plan investments		
TCRS Legacy Plan	-	61,538
TCRS Retirement Plan	970	-
Metro Plan	156,543	-
Changes in proportion of Net Pension Liability (Asset)		
TCRS Legacy Plan	60,912	42,442
Metro Plan	5,199	-
Contributions subsequent to the measurement date of June 30, 2015 for TCRS Plans	<u>115,513</u>	<u>N/A</u>
Totals	<u>\$346,787</u>	<u>\$315,567</u>

STEM's employer contributions of \$115,513 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. PENSIONS - Continued

<u>Year Ended June 30,</u>	
2017	\$ (26,333)
2018	(26,333)
2019	(26,333)
2020	41,485
2021	(33,376)
Thereafter	(13,263)

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, 2016, STEM had \$16,778 outstanding for contributions to the Pension Plans.

J. COMMITMENTS AND CONTINGENCIES

In July 2011, STEM entered into an agreement with a transportation company to operate bus routes to and from campus, including providing drivers, buses, maintenance of equipment, and route services. Fees under the agreement call for a base contract rate of \$256 per route plus \$0.20 per mile up to a maximum of 120 miles per route. For each of the second through fifth year of the contract, the base rate increases 3% over the previous year's base rate. The five year contract expired June 30, 2016. Transportation expense relating to bus routes for June 30, 2016, was \$437,692.

In July 2016, STEM entered into an agreement with the Metropolitan Board of Public Education for busing services to include operating bus routes, providing drivers, buses, and maintenance of equipment. Fees under the agreement include \$350 per bus per day, bus monitoring fees of \$150 per monitor per day of actual use, overtime pay for drivers, and an annual routing fee of \$1,500 per school. The agreement commences July 31, 2016 for 5 years ending July 30, 2021.

K. SUBSEQUENT EVENTS

STEM has entered into the following agreements, which are in effect after year-end:

- Extended their line-of-credit agreement to July 2017, as disclosed in Note D.
- A lease for additional space for the high school commencing in July 2016, as disclosed in Note F.
- An equipment lease commencing in July 2016, as disclosed in Note F.
- An agreement for busing services commencing in July 2016, as disclosed in Note J.

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>
Measurement date	June 30, 2014	June 30, 2015
Proportion of the net pension liability (asset)	0.02720%	0.02327%
Proportionate share of the of the net pension liability (asset)	\$ (4,424)	\$ 9,532
Covered-employee payroll	\$ 1,076,178	\$ 871,074
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.411%	1.094%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%
<u>Teachers Retirement Plan of TCRS</u>	<u>2015 (1)</u>	<u>2016</u>
Measurement date		June 30, 2015
Proportion of the net pension liability (asset)		0.29806%
Proportionate share of the of the net pension liability (asset)		\$ (11,991)
Covered-employee payroll		\$ 619,296
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		-1.94%
Plan fiduciary net position as a percentage of the total pension liability		127.46%

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>
Measurement date	June 30, 2015	June 30, 2016
Proportion of the net pension liability (asset)	0.07440%	0.08263%
Proportionate share of the of the net pension liability (asset)	\$ 51,297	\$ 182,885
Covered-employee payroll	\$ 389,092	\$ 456,441
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	13.184%	40.068%
Plan fiduciary net position as a percentage of the total pension liability	97.57%	92.39%

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>
Actuarial Determined Contributions (ADC)	\$ 94,891	\$ 78,745	\$ 64,966
Contributions in relation to the actuarially determined contribution	<u>94,891</u>	<u>78,745</u>	<u>64,966</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,076,178	\$ 871,074	\$ 718,650
Contributions as a percentage of covered-employee payroll	8.88%	9.04%	9.04%
<u>Teachers Retirement Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarial Determined Contributions (ADC)	N/A	\$ 15,482	\$ 50,547
Contributions in relation to the actuarially determined contribution		<u>24,771</u>	<u>50,547</u>
Contribution deficiency (excess)		<u><u>\$ (9,289)</u></u>	<u><u>\$ -</u></u>
Covered-employee payroll		\$ 619,296	\$ 1,263,675
Contributions as a percentage of covered-employee payroll		4.00%	4.00%
<u>Metro Plan</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarial Determined Contributions (ADC)	\$ 41,059	\$ 69,986	\$ 70,794
Contributions in relation to the actuarially determined contribution	<u>41,059</u>	<u>69,986</u>	<u>70,794</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 239,873	\$ 389,092	\$ 456,441
Contributions as a percentage of covered-employee payroll	17.117%	17.987%	15.510%

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

See independent auditor's report.

OTHER INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2016

<u>Program Name/Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	N/A	\$ 135,265
Total U.S. Department of Agriculture			<u>135,265</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	218,719
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	<u>67,522</u>
Total U.S. Department of Education			<u>286,241</u>
Total Federal Awards			<u>421,506</u>
<u>State Financial Assistance</u>			
TENNESSEE DEPARTMENT OF EDUCATION:			
Basic Education Program	N/A	N/A	107,000
Passed through Metropolitan Nashville Public Schools			
Basic Education Program	N/A	N/A	<u>5,081,024</u>
Total State Awards			<u>5,188,024</u>
Total Federal and State Awards			<u>\$ 5,609,530</u>

Note: 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.

SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES BY SCHOOL
STEM PREPARATORY ACADEMY MIDDLE SCHOOL
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 783,325	\$ -	\$ 783,325
Receivables	-	40,982	40,982
Due from other funds	40,982	-	40,982
Other current assets	<u>35,550</u>	<u>-</u>	<u>35,550</u>
Total assets	<u>\$ 859,857</u>	<u>\$ 40,982</u>	<u>\$ 900,839</u>
LIABILITIES			
Accounts payable	\$ 36,646	\$ -	\$ 36,646
Accrued expenditures	114,174	-	114,174
Due to other funds	<u>-</u>	<u>40,982</u>	<u>40,982</u>
Total liabilities	<u>150,820</u>	<u>40,982</u>	<u>191,802</u>
FUND BALANCES			
Nonspendable	35,550	-	35,550
Unassigned	<u>673,487</u>	<u>-</u>	<u>673,487</u>
Total fund balances	<u>709,037</u>	<u>-</u>	<u>709,037</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 859,857</u>	<u>\$ 40,982</u>	<u>\$ 900,839</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, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 248,129	\$ -	\$ 248,129
Receivables	-	10,966	10,966
Due from other funds	10,966	-	10,966
Other current assets	10,746	-	10,746
Total assets	<u>\$ 269,841</u>	<u>\$ 10,966</u>	<u>\$ 280,807</u>
LIABILITIES			
Accounts payable	\$ 1,003,310	\$ -	\$ 1,003,310
Accrued expenditures	36,737	-	36,737
Due to other funds	-	10,966	10,966
Total liabilities	<u>1,040,047</u>	<u>10,966</u>	<u>1,051,013</u>
FUND BALANCES (DEFICIT)			
Nonspendable	10,746	-	10,746
Unassigned	<u>(780,952)</u>	<u>-</u>	<u>(780,952)</u>
Total fund balances (deficit)	<u>(770,206)</u>	<u>-</u>	<u>(770,206)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 269,841</u>	<u>\$ 10,966</u>	<u>\$ 280,807</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, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 167,898	\$ -	\$ 167,898
District funding	3,863,853	-	3,863,853
Federal and state grants	-	398,667	398,667
Other income	42,195	-	42,195
Total revenues	<u>4,073,946</u>	<u>398,667</u>	<u>4,472,613</u>
EXPENDITURES			
Current:			
Instructional	89,615	-	89,615
Food services	67,781	101,449	169,230
Occupancy	208,501	-	208,501
Office	120,525	-	120,525
Organizational development	89,268	-	89,268
Other	72,557	-	72,557
Professional services and fees	348,468	-	348,468
Employee compensation	2,337,190	219,218	2,556,408
Staff development	18,439	-	18,439
Transportation	324,336	-	324,336
Debt Service			
Principal	118,216	-	118,216
Interest	53,833	-	53,833
Capital outlay	<u>675,136</u>	<u>78,000</u>	<u>753,136</u>
Total expenditures	<u>4,523,865</u>	<u>398,667</u>	<u>4,922,532</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	(105,979)	-	(105,979)
Capital contribution	<u>730,000</u>	-	<u>730,000</u>
Total other financing sources (uses)	<u>624,021</u>	-	<u>624,021</u>
NET CHANGE IN FUND BALANCES	174,102	-	174,102
FUND BALANCES, June 30, 2015	<u>534,935</u>	-	<u>534,935</u>
FUND BALANCES, June 30, 2016	<u>\$ 709,037</u>	<u>\$ -</u>	<u>\$ 709,037</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, 2016

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 420,302	\$ -	\$ 420,302
District funding	1,217,171	-	1,217,171
Federal and state grants	-	129,839	129,839
Other income	12,165	-	12,165
Total revenues	<u>1,649,638</u>	<u>129,839</u>	<u>1,779,477</u>
EXPENDITURES			
Current:			
Instructional	46,609	-	46,609
Food services	22,605	33,816	56,421
Occupancy	67,296	-	67,296
Office	41,834	-	41,834
Organizational development	23,028	-	23,028
Other	23,523	-	23,523
Professional services and fees	135,142	-	135,142
Employee compensation	699,042	67,023	766,065
Staff development	5,991	-	5,991
Transportation	119,983	-	119,983
Debt Service			
Principal	246,015	-	246,015
Interest	6,313	-	6,313
Capital outlay	<u>2,112,345</u>	<u>29,000</u>	<u>2,141,345</u>
Total expenditures	<u>3,549,726</u>	<u>129,839</u>	<u>3,679,565</u>
OTHER FINANCING SOURCES:			
Transfers in	105,979	-	105,979
Issuance of debt	<u>1,114,486</u>	<u>-</u>	<u>1,114,486</u>
Total other financing sources	<u>1,220,465</u>	<u>-</u>	<u>1,220,465</u>
NET CHANGE IN FUND BALANCES	(679,623)	-	(679,623)
FUND BALANCES, June 30, 2015	<u>(90,583)</u>	<u>-</u>	<u>(90,583)</u>
FUND BALANCES (DEFICIT), June 30, 2016	<u>\$ (770,206)</u>	<u>\$ -</u>	<u>\$ (770,206)</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, 2016

As of June 30, 2016, 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;
commencing with the inaugural class of ninth graders in July 2015)

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, 2016, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements and have issued our report thereon dated February 8, 2017.

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) to determine the 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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 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*.

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 purposes.

Crosslin, PLLC

Nashville, Tennessee
February 8, 2017

STEM PREPARATORY ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

ITEM #2015-001: Capital Assets

This finding was resolved during fiscal year 2016.