

STEM PREPARATORY ACADEMY

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2015**

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

STEM PREPARATORY ACADEMY

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STEM PREPARATORY ACADEMY
INTRODUCTORY SECTION

BOARD OF DIRECTORS

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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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, in fiscal year 2015, STEM Preparatory Academy adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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 - 12 and the schedule of proportionate share of the net pension liability (asset) and schedule of employer contributions on pages 41 - 42 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 44 - 47 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee and are not a required part of the basic financial statements.

The schedule of assets, liabilities, and fund balances by school, the schedule of revenues, expenditures and changes in fund balances by school and schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2016, 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 + Associates, P.C.

Nashville, Tennessee
February 23, 2016

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, 2015 as compared to 2014. 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 \$905,091 in 2015 or 55.8%, while total liabilities and deferred inflows of resources increased \$383,675 or 24.7%. Both increases are attributable to increases in capital assets and long-term debt with the leasehold improvements to the middle school and expansion of the high school. Total revenues for STEM increased by \$1,578,387 or 51.2%. STEM's governmental activities total program costs for 2015 increased \$841,927 or 36.4%. Overall, STEM's 2015 change in net position, \$521,416, was \$594,978 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 another grade level during the year at the middle school, and planning year at the high school.

For the General Purpose School Fund there was a net change in fund balance of \$324,193. The General Purpose School Fund - fund balance at fiscal year-end was \$444,352. The increase in fund balance is due to an increase in district funding related to the addition of another grade at the middle school.

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 13.

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 15. The statements provide detailed information about STEM's most significant funds, not the organization as a whole. Funds are established by the 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 16 and 18.

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 \$590,389. STEM's net position includes \$936,450 of cash and cash equivalents. All cash is available to meet STEM's ongoing operating activities and growth strategy.

As of June 30, 2015, STEM had invested a total of \$1,476,250 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 2015-2016 school year, as student enrollment increases with the inaugural class of 9th graders 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, 2015, STEM has an outstanding principal balance of \$739,965 on their construction loans. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. STEM also entered into an additional equipment loan in June 2015 that has an outstanding principal of \$110,000 as of June 30, 2015. 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u> (Restated)
Current assets	\$ 1,034,603	\$ 475,784
Capital assets	<u>1,264,408</u>	<u>1,051,018</u>
Total assets	<u>2,299,011</u>	<u>1,526,802</u>
Deferred outflows of resources	<u>227,773</u>	<u>94,891</u>
Current liabilities	496,871	339,695
Noncurrent liabilities	<u>725,218</u>	<u>1,082,356</u>
Total liabilities	<u>1,222,089</u>	<u>1,422,051</u>
Deferred inflows of resources	<u>714,306</u>	<u>130,669</u>
Net position:		
Net investment in capital assets	414,443	306,514
Unrestricted	<u>175,946</u>	<u>(237,541)</u>
Total net position	<u>\$ 590,389</u>	<u>\$ 68,973</u>

The 2014 column has been restated for the implementation of Governmental Accounting Standards Board Statement ("GASB") No. 68, as further described in Note A to the financial statements.

STEM had deferred inflows of \$265,000 related to a private grant and donation intended for the 2015-2016 school year, \$40,911 for future rent, and \$408,395 related to pensions at June 30, 2015. Deferred outflows totaling \$227,773 related to pensions. STEM's total net position increased \$521,416 during the 2015 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 \$4,630,559 during the 2015 fiscal year which is \$1,565,384 or 51.1% increase over 2014. Contributions from individuals and organizations were \$230,428 higher than 2014. The increase was due to a focused effort to increase contribution and private grant income. STEM realized an overall increase in federal funding as compared to 2014 as a result of an overall increase in the Title I and IDEA programs due to increased enrollment and a new start-up grant used to cover some of the initial costs for starting the high school. Finally, district funding was awarded in 2015 for STEM's fourth academic year. The main driver of this award is student enrollment, which increased due to the addition of an 8th 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 400.

Total expenses were \$4,136,763 during the 2015 fiscal year, which was \$983,409 higher than 2014. The majority of this increase is directly related to hiring of additional teachers, instructional expenses related to the addition of a 8th grade class, and occupancy and expansion costs related to the additional growth of the middle school.

A schedule of STEM's revenue and expenses for the years ended June 30, 2015 and 2014, is as follows. The schedule is for the organization as a whole, not for the governmental funds.

	<u>2015</u>	<u>2014 (1)</u>
Revenues		
Contributions	\$ 275,279	\$ 44,851
District funding	3,773,406	2,633,385
Federal and state grants	581,874	386,939
Other	<u>27,620</u>	<u>14,617</u>
Total revenues	<u>4,658,179</u>	<u>3,079,792</u>
Expenses		
Instructional	96,000	108,841
Food Services	191,309	185,166
Occupancy	227,802	165,625
Office	122,655	123,222
Organizational development	74,977	116,420
Other	61,359	39,403
Service fees	162,182	137,538
Employee compensation	2,634,773	1,854,038
Staff development	41,145	35,366
Transportation	320,727	267,065
Interest	37,449	23,407
Depreciation and amortization	<u>166,385</u>	<u>97,263</u>
Total expenses	<u>4,136,763</u>	<u>3,153,354</u>
Change in net position	<u>\$ 521,416</u>	<u>\$ (73,562)</u>

(1) This information has not been restated to reflect the adoption of GASB No. 68 in fiscal year 2015.

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 15, report a combined fund balance of \$444,352. 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, 2015, the differences consist of capital assets, long-term debt, and pensions which are not reported in STEM's funds.

SCHOOL MISSION AND MODEL

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

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

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

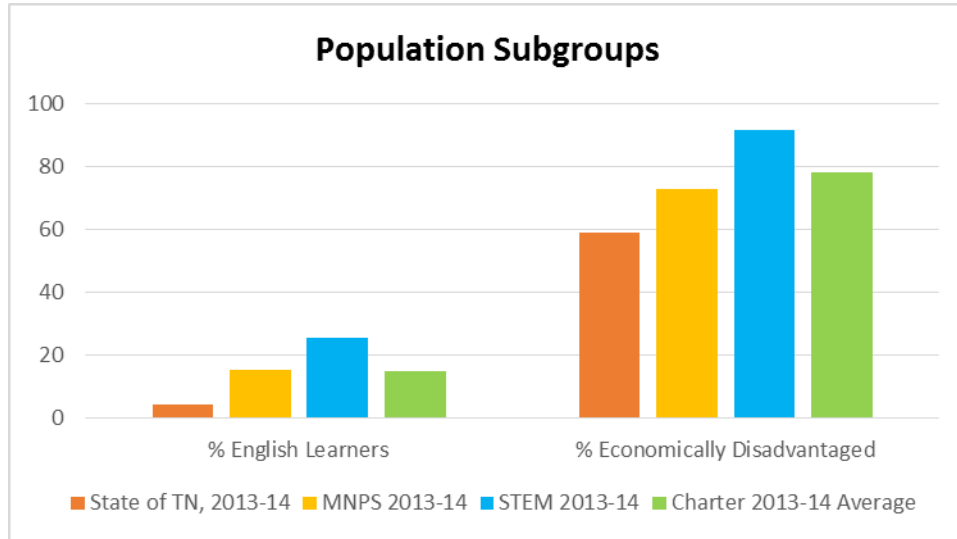
IMPACT: The First Five Years

In 2015, STEM 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 serves a unique, highly diverse population and has established a track record of outstanding academic results, achieved with unmatched fiscal efficiency.

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

Who We Serve

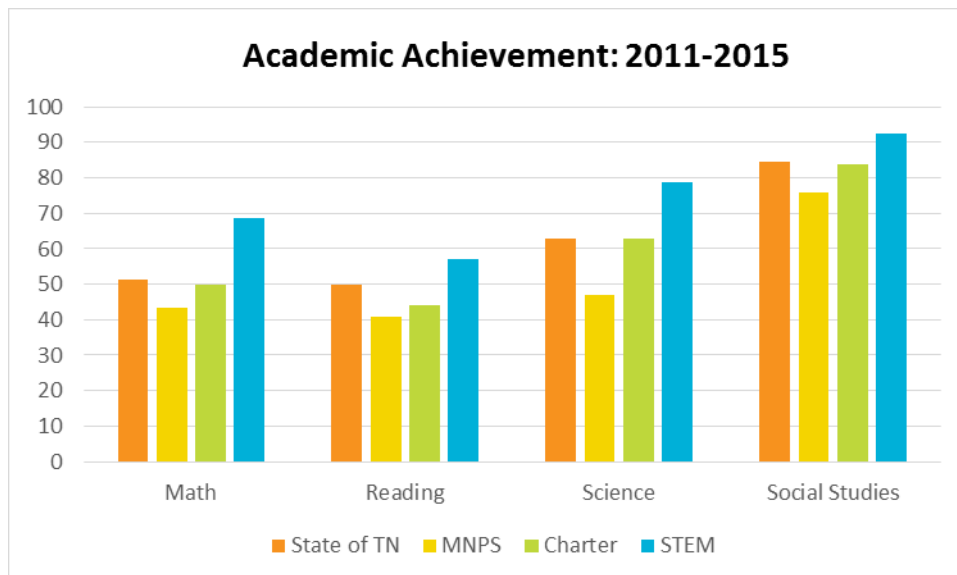
STEM’s student body is truly a “melting pot” that reflects the collective face of the community we serve. Our families come from all corners of the globe, speaking nineteen different languages and adding incalculable richness to the educational experience of our students. Moreover, the school serves a higher concentration of economically disadvantaged students and English Language Learners than our peers across the city and the state.



Approximately 92% of STEM’s students qualify for free or reduced-price meals, while 80% have been classified as English Learners during their academic career.

Academic Results

STEM continues to outperform peer schools throughout the state across all subject areas, ranking first in math growth and third in reading growth.

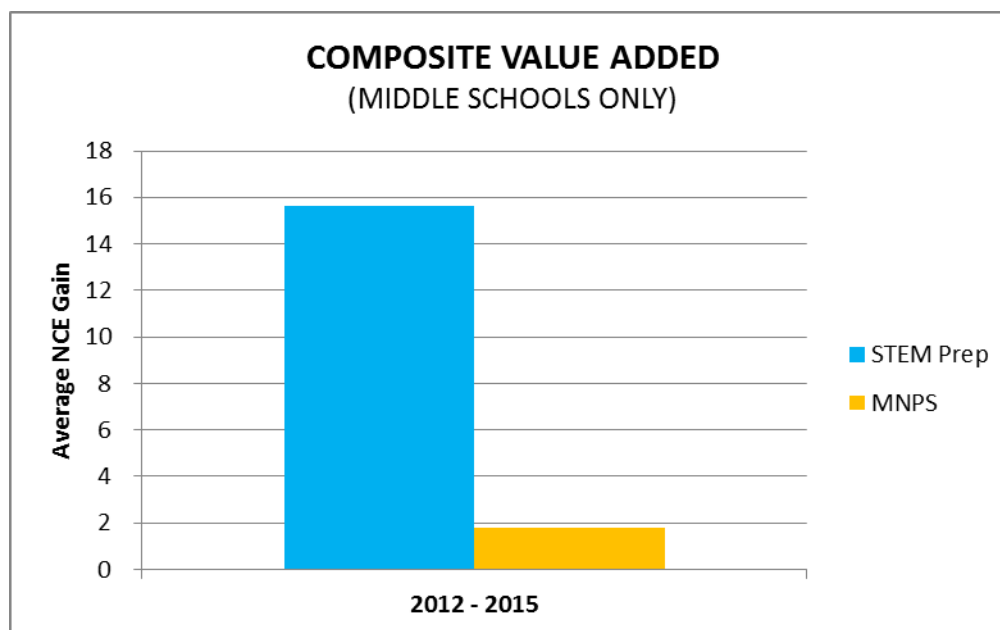


STEM PREPARATORY ACADEMY
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

Since its inception, STEM 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.

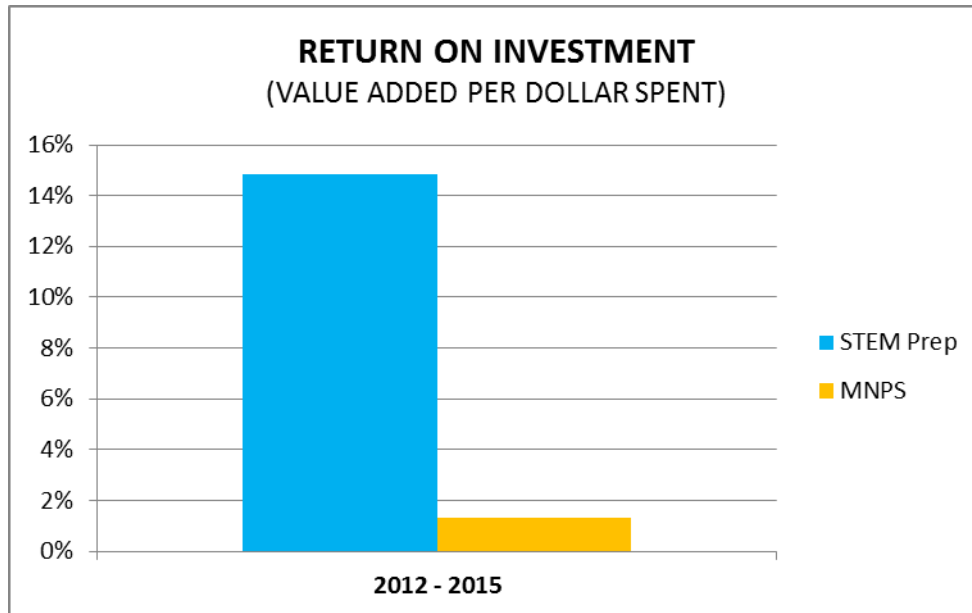
Investment

STEM 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 has added educational value (as measured by the Tennessee Department of Education) at a rate of eight times that of district middle schools.



When considering the resources invested to achieve those academic gains, the contrast in performance is even more stark. Since its inception, STEM 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.

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



STUDENT ENROLLMENT FACTORS AND NEXT YEAR’S BUDGET

Fiscal Year 2016 enrollment is projected to be over 400 students. Additionally, FY2016 will represent the first year of operations for STEM Prep High. The high school will serve 130 ninth-grade students next year, adding a grade level each of the three subsequent years. The middle school expects per pupil BEP funding to remain flat or decline for the 2015-16 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, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 936,450
Accounts receivable	58,582
Other current assets	39,571
Capital assets, net	<u>1,264,408</u>
Total assets	<u>2,299,011</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>227,773</u>
LIABILITIES	
Accounts payable	210,664
Accrued expenses	114,587
Long-term debt due within one year	171,620
Long-term debt due in more than one year	678,345
Net pension liability	<u>46,873</u>
Total liabilities	1,222,089
DEFERRED INFLOWS OF RESOURCES	
Operating grants	265,000
Deferred rent	40,911
Pensions	<u>408,395</u>
Total deferred inflows of resources	<u>714,306</u>
NET POSITION	
Net investment in capital assets	414,443
Unrestricted	<u>175,946</u>
Total net position	<u><u>\$ 590,389</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

		Functions		
		Student Instruction and Services	Administration	Fundraising
<u>GOVERNMENTAL ACTIVITIES:</u>	<u>Total</u>			
EXPENSES				
Instructional	\$ 96,000	\$ 96,000	\$ -	\$ -
Food services	191,309	191,309	-	-
Occupancy	227,802	182,242	45,560	-
Office	122,655	-	122,655	-
Organizational development	74,977	-	74,977	-
Other	61,359	61,359	-	-
Professional services and fees	162,182	-	162,182	-
Employee compensation	2,634,773	2,135,627	499,146	-
Staff development	41,145	35,891	5,254	-
Transportation	320,727	320,727	-	-
Interest	37,449	-	37,449	-
Depreciation and amortization	<u>166,385</u>	<u>133,108</u>	<u>33,277</u>	-
Total expenses	4,136,763	3,156,263	980,500	-
PROGRAM REVENUES				
Operating grants and contributions	500,624	500,624	-	-
Capital grants and contributions	<u>81,250</u>	<u>81,250</u>	-	-
Net program expenses	<u>\$ 3,554,889</u>	<u>\$ 2,574,389</u>	<u>\$ 980,500</u>	<u>\$ -</u>
GENERAL REVENUES				
Contributions	275,279			
District funding	3,773,406			
Other	<u>27,620</u>			
Total general revenues	<u>4,076,305</u>			
CHANGE IN NET POSITION	521,416			
NET POSITION, as restated June 30, 2014	<u>68,973</u>			
NET POSITION, June 30, 2015	\$ 590,389			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 936,450	\$ -	\$ 936,450
Accounts receivable	1,028	57,554	58,582
Due from other funds	57,554	-	57,554
Other current assets	39,571	-	39,571
Total assets	<u>\$ 1,034,603</u>	<u>\$ 57,554</u>	<u>\$ 1,092,157</u>
LIABILITIES			
Accounts payable	\$ 210,664	\$ -	\$ 210,664
Accrued expenditures	114,587	-	114,587
Due to other funds	-	57,554	57,554
Total liabilities	325,251	57,554	382,805
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - operating grants	265,000	-	265,000
Total deferred inflows of resources	265,000	-	265,000
FUND BALANCES			
Nonspendable	39,571	-	39,571
Unassigned	404,781	-	404,781
Total fund balances	444,352	-	444,352
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,034,603</u>	<u>\$ 57,554</u>	<u>\$ 1,092,157</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2015

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	\$ 444,352
Capital assets not reported in the balance sheet	1,264,408
Pension amounts not reported in the balance sheet	
Net pension liability	(46,873)
Deferred inflows of resources for pensions	(408,395)
Deferred outflows of resources for pensions	227,773
Long-term debt	(849,965)
Deferred inflows of resources related to deferred rent	<u>(40,911)</u>
Net position of governmental activities in the statement of net position	<u>\$ 590,389</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, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 275,279	\$ -	\$ 275,279
District funding	3,773,406	-	3,773,406
Federal and state grants	-	581,874	581,874
Other income	27,620	-	27,620
Total revenues	<u>4,076,305</u>	<u>581,874</u>	<u>4,658,179</u>
EXPENDITURES			
Current:			
Instructional	96,000	-	96,000
Food Services	59,663	131,646	191,309
Occupancy	186,891	-	186,891
Office	121,681	974	122,655
Organizational development	74,977	-	74,977
Other	57,867	3,492	61,359
Professional services and fees	160,182	2,000	162,182
Employee compensation	2,389,545	360,365	2,749,910
Staff development	41,145	-	41,145
Transportation	318,580	2,147	320,727
Debt service:			
Principal	95,639	-	95,639
Interest	37,449	-	37,449
Capital outlay	313,593	81,250	394,843
Total expenditures	<u>3,953,212</u>	<u>581,874</u>	<u>4,535,086</u>
OTHER FINANCING SOURCES:			
Issuance of debt	<u>201,100</u>	<u>-</u>	<u>201,100</u>
NET CHANGE IN FUND BALANCES	324,193	-	324,193
FUND BALANCES, June 30, 2014	<u>120,159</u>	<u>-</u>	<u>120,159</u>
FUND BALANCES, June 30, 2015	<u>\$ 444,352</u>	<u>\$ -</u>	<u>\$ 444,352</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, 2015

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	\$ 324,193
Issuance of debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(201,100)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	394,843
Principal payments on long-term debt	95,639
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation and amortization expense	(166,385)
Occupancy expense increase associated with deferred rent	(40,911)
Expenditures for pensions in the governmental funds consists of contributions made, whereas in the school-wide statement, pension expense is calculated in accordance with GASB No. 68.	<u>115,137</u>
Change in net position of governmental activities	<u><u>\$ 521,416</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015

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, 2015. 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, 2015

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, 2015

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 a private grant of \$115,600 intended for the 2015 year, \$40,911 in deferred rent (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, 2015

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, 2015

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 \$57,554 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.

Recent Accounting Pronouncements and Restatement of Net Position

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27*, which is intended to improve the decision-usefulness of information and enhance the value for assessing accountability by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The new standard also intends to improve the financial reporting by state and local governments for pensions and by improving the transparency about the pension plan through new note disclosures and supplementary information. The provisions of Statement No. 68 are effective in fiscal year 2015.

The statement resulted in STEM recognizing the net pension liability on the statement of net position for its pension plan. The statement requires retroactive application through restatement of beginning net position. This adjustment resulted in a decrease in the unrestricted net position on the statement of net position. Additionally, the new standard computes the annual actuarially determined contribution in a new manner. Other measurement changes include recognizing annual pension expense in-lieu-of pension cost.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement were required to be applied simultaneously with the provisions of Statement No. 68.

The impact on the financial statements of the adoption of these accounting pronouncements is restatement of beginning net position, as follows:

	<u>June 30, 2014</u>
Unrestricted net position, beginning of year, as previously reported	\$ 485,166
GASB 68 adjustment to record net pension liability and related deferred outflows of resources	<u>(416,193)</u>
Unrestricted net position, beginning of year, as restated	<u>\$ 68,973</u>

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, 2015

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2015</u>
<i>Nondepreciable</i>				
Construction in progress	\$ 173,715	\$ 75,552	\$(177,901)	\$ 71,366
<i>Depreciable</i>				
Office equipment	65,339	3,169	-	68,508
Furniture and fixtures	95,922	78,608	-	174,530
Computer equipment	138,518	53,541	-	192,059
Leasehold improvements	<u>695,352</u>	<u>167,900</u>	<u>177,901</u>	<u>1,041,153</u>
Total depreciable capital assets	995,131	303,218	177,901	1,476,250
Accumulated depreciation	<u>(117,828)</u>	<u>(165,380)</u>	<u>-</u>	<u>(283,208)</u>
Capital assets, net	<u>\$ 1,051,018</u>	<u>\$ 213,390</u>	<u>\$ -</u>	<u>\$ 1,264,408</u>

Construction in progress included leasehold improvements to expand the high school to accommodate the 9th grade. Estimated costs to complete construction are \$605,000 at June 30, 2015.

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$132,304
Administration	<u>33,076</u>
	<u>\$165,380</u>

D. LINE-OF-CREDIT

STEM had a \$150,000 line-of-credit with a bank, which expired July 15, 2015. After year-end, the line-of-credit was increased to \$325,000 and extended to July 2016. As of June 30, 2015, there were no outstanding amounts under the line.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015 totaled \$496,262.

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, 2015 totaled \$208,189.

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, 2015 totaled \$35,014.

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, 2015 totaled \$500.

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%. Principal and interest are due in monthly installments of \$2,029 through June 2020. The outstanding balance at June 30, 2015 totaled \$110,000.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Contribution/</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2015</u>
Note payable - bank	\$575,090	\$ -	\$ 78,828	\$496,262
Note payable - bank	169,414	55,586	16,811	208,189
Note payable - bank	-	35,014	-	35,014
Note payable - bank	-	500	-	500
Note payable - bank	<u>-</u>	<u>110,000</u>	<u>-</u>	<u>110,000</u>
Total	<u>\$744,504</u>	<u>\$201,100</u>	<u>\$ 95,639</u>	<u>\$849,965</u>

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ 34,938	\$171,620
2017	28,317	142,535
2018	22,887	149,267
2019	14,533	156,319
2020	7,148	163,504
2021	<u>1,089</u>	<u>66,720</u>
	<u>\$108,912</u>	<u>\$849,965</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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 \$25,843 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$40,911 at June 30, 2015, and presented with deferred inflows of resources.

The leases require monthly rental payments through July 1, 2024, as follows:

Year Ending June 30,

2016	\$ 143,964
2017	146,843
2018	149,780
2019	152,776
2020	155,831
2021 - 2024	<u>669,199</u>
	<u>\$1,418,393</u>

G. FUND BALANCES

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

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, 2015, was \$3,773,406. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

I. PENSION PLANS

STEM participates in the following three defined benefit pension plans (collectively the “Pension Plans”):

Certificated Employees

Tennessee Consolidated Retirement System (“TCRS”):

Teachers Legacy Pension Plan

Teachers Retirement Plan (collectively the “TCRS Plans”)

Non-Certificated Employees

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

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pension Plans and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by the TCRS and 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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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 is closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning on 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 pension 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.

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.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's 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. Under the Teacher 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. 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 for the Teacher Legacy Pension Plan 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, 2015 to the Teacher Legacy Pension Plan were \$78,034 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.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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, 2015 to the Teacher Retirement Plan were \$25,633, which is 4 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

Pension Liability (Asset)

Teachers Legacy Pension Plan

STEM reported an asset of \$4,424 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2014, 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 STEM's employer contributions to the pension plan during the year ended June 30, 2014 relative to the contributions of all LEAs for the year ended June 30, 2014. At the June 30, 2014 measurement date, STEM's proportion was 0.027 percent. The proportion measured as of June 30, 2013 was 0.022 percent.

Teachers Retirement Plan

Since the measurement date is June 30, 2014, which is prior to the July 1, 2014 inception of the Teacher Retirement Plan, there is not a net pension liability to report at June 30, 2015.

Actuarial assumptions

Teachers Legacy Pension Plan

The total pension liability in the June 30, 2014 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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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, 2014 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.

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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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%
		<u>100%</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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

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.

(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.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

Normal retirement for the School's employees participating in the Metro Plan occurs at the unreduced retirement age which is the earlier of (a) the date when the employee's age plus the completed years of credited service equals 85, but not before age 60; and (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% 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 benefits, to any plan members or beneficiaries.

Contributions

The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All funding is provided under an actuarially recommended employee contribution rate of 17.987% for the non-certificate employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metropolitan Government Employees.

(B) Pension Liabilities – Metro Plan

Pension Liability

The School reported a liability of \$51,297 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 liability was determined by an actuarial valuation as of July 1, 2014. The School's proportion of the net pension liability was based on the School's employer contributions to the pension plan during the year ended June 30, 2015 relative to all contributions for 2015. At the June 30, 2015 measurement date, the School's proportionate share was 0.0744 percent.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2014. Actuarial assumptions are summarized below:

Inflation	2.6 percent
Salary increases	4.0 percent

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

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, 2014 valuation were based on the results of an actuarial experience study for the period 2007 to 2012.

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 weighing 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 summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	7.10%	6.60%
International equity	10.00%	10.10%
Equity hedge	6.40%	5.80%
Fixed income	3.40%	1.80%
Fixed income alternatives	3.40%	5.60%
Real estate	2.30%	6.10%
Private equity	7.10%	7.60%

Discount Rate

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

Pension Liabilities (Assets)

The School reports the following net pension liability (asset) as of June 30, 2015:

TCRS Plans	\$(4,424)
Metro Plan	<u>51,297</u>
Net pension liability	<u>\$ 46,873</u>

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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability (asset):			
TCRS Plans	\$745,462	\$(4,424)	\$(625,241)
Metro Plan	<u>284,409</u>	<u>51,297</u>	<u>(160,734)</u>
Total	<u>\$1,029,871</u>	<u>\$46,873</u>	<u>\$(785,975)</u>

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS and Metropolitan Government financial reports.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

Pension expense (income)

For the year ended June 30, 2015, STEM recognized pension expense (income) as follows:

TCRS Plans	\$(127,321)
Metro Plan	<u>(19,858)</u>
Pension expense (income)	<u>\$(147,179)</u>

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2015, STEM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
TCRS Plans	\$ 10,740	\$ -
Metro Plan	-	43,887
Net difference between projected and actual earnings on pension plan investments		
TCRS Plans	-	364,508
Metro Plan	40,271	-
Changes in proportion of net pension liability (asset) for TCRS plan	73,095	-
LEA's contributions subsequent to the measurement date of June 30, 2014	<u>103,667</u>	<u>N/A</u>
Total	<u>\$ 227,773</u>	<u>\$ 408,395</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

I. PENSION PLANS - Continued

The School's employer contributions of \$103,667, reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as an increase in net pension asset in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$(73,356)
2017	(73,356)
2018	(73,356)
2019	(73,356)
2020	7,703
Thereafter	<u>1,433</u>
	<u><u>\$(284,288)</u></u>

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

Payable to the Pension Plan

At June 30, 2015, there was no significant amounts 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 expires on June 30, 2016, with the option to renew for an unlimited one year period each year. Transportation expense relating to bus routes for June 30, 2015, were \$305,946.

K. SUBSEQUENT EVENT

In July 2015, STEM increased and extended their line-of credit, as further described in Note D.

REQUIRED SUPPLEMENTARY INFORMATION

STEM PREPARATORY ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF
NET PENSION LIABILITY (ASSET)

Plan	Teachers Legacy Plan of TCRS	Metro Plan
Measurement date	June 30, 2014	June 30, 2015
Proportion of the net pension liability (asset)	0.0272%	0.0744%
Proportionate share of the of the net pension liability (asset)	\$ (4,424)	\$ 51,297
Covered-employee payroll	\$ 1,076,178	\$ 389,092
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-0.41%	13.18%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	97.57%

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.

Information is not applicable in this schedule for the Teachers Retirement Plan of TCRS as the measurement date

See independent auditor's report.

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

Teachers Legacy Pension Plan of TCRS

	<u>2015</u>	<u>2014</u>
Actuarial Determined Contributions (ADC)	\$ 78,034	\$ 94,891
Contributions in relation to the actuarially determined contribution	<u>78,034</u>	<u>94,891</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 863,208	\$ 1,076,178
Contributions as a percentage of covered-employee payroll	9.04%	8.88%

Teachers Retirement Plan of TCRS

	<u>2015</u>	<u>2014</u>
Actuarial Determined Contributions (ADC)	\$ 25,633	N/A
Contributions in relation to the actuarially determined contribution	<u>25,633</u>	
Contribution deficiency (excess)	<u>\$ -</u>	
Covered-employee payroll	\$ 640,825	
Contributions as a percentage of covered-employee payroll	4.00%	

Metro Plan

	<u>2015</u>	<u>2014</u>
Actuarial Determined Contributions (ADC)	\$ 69,986	\$ 41,059
Contributions in relation to the actuarially determined contribution	<u>69,986</u>	<u>41,059</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 389,092	\$ 239,873
Contributions as a percentage of covered-employee payroll	17.987%	17.117%

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.

OTHER INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2015

<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	\$ 131,646
Total U.S. Department of Agriculture			<u>131,646</u>
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education			
Charter School Program (CSP)			
Planning and Initial Implementation Grant	84.282	N/A	125,000
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	191,359
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	<u>52,619</u>
Total U.S. Department of Education			<u>368,978</u>
Total Federal Awards			<u>500,624</u>
<u>State Financial Assistance</u>			
TENNESSEE DEPARTMENT OF EDUCATION:			
Basic Education Program	N/A	N/A	81,250
Passed through Metropolitan Nashville Public Schools			
Basic Education Program	N/A	N/A	<u>3,773,406</u>
Total State Awards			<u>3,854,656</u>
Total Federal and State Awards			<u>\$ 4,355,280</u>

Note: The schedule of expenditures of federal awards includes the federal grant activity and is presented in accordance with the requirements of OMB Circular A-133 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, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 816,450	\$ -	\$ 816,450
Receivables	1,028	32,554	33,582
Due from other funds	32,554	-	32,554
Other current assets	33,134	-	33,134
Total assets	<u>\$ 883,166</u>	<u>\$ 32,554</u>	<u>\$ 915,720</u>
LIABILITIES			
Accounts payable	\$ 88,644	\$ -	\$ 88,644
Accrued expenditures	114,587	-	114,587
Due to other funds	-	32,554	32,554
Total liabilities	<u>203,231</u>	<u>32,554</u>	<u>235,785</u>
DEFERRED INFLOWS OF RESOURCES			
Operating grants	<u>145,000</u>	<u>-</u>	<u>145,000</u>
FUND BALANCES			
Nonspendable	33,134	-	33,134
Unassigned	501,801	-	501,801
Total fund balances	<u>534,935</u>	<u>-</u>	<u>534,935</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 883,166</u>	<u>\$ 32,554</u>	<u>\$ 915,720</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, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 120,000	\$ -	\$ 120,000
Receivables	-	25,000	25,000
Due from other funds	25,000	-	25,000
Other current assets	<u>6,437</u>	<u>-</u>	<u>6,437</u>
Total assets	<u>\$ 151,437</u>	<u>\$ 25,000</u>	<u>\$ 176,437</u>
LIABILITIES			
Accounts payable	\$ 122,020	\$ -	\$ 122,020
Accrued expenditures	-	-	-
Due to other funds	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Total liabilities	<u>122,020</u>	<u>25,000</u>	<u>147,020</u>
DEFERRED INFLOWS OF RESOURCES			
Operating grants	<u>120,000</u>	<u>-</u>	<u>120,000</u>
FUND BALANCES (DEFICIT)			
Nonspendable	6,437	-	6,437
Unassigned	<u>(97,020)</u>	<u>-</u>	<u>(97,020)</u>
Total fund balances (deficit)	<u>(90,583)</u>	<u>-</u>	<u>(90,583)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 151,437</u>	<u>\$ 25,000</u>	<u>\$ 176,437</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, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 275,279	\$ -	\$ 275,279
District funding	3,773,406	-	3,773,406
Federal and state grants	-	456,874	456,874
Other income	27,620	-	27,620
Total revenues	<u>4,076,305</u>	<u>456,874</u>	<u>4,533,179</u>
EXPENDITURES			
Current:			
Instructional	96,000	-	96,000
Food services	59,663	131,646	191,309
Occupancy	186,891	-	186,891
Office	121,681	-	121,681
Organizational development	66,510	-	66,510
Other	57,867	-	57,867
Professional services and fees	160,182	-	160,182
Employee compensation	2,386,507	243,978	2,630,485
Staff development	41,025	-	41,025
Transportation	318,262	-	318,262
Debt Service			
Principal	95,639	-	95,639
Interest	37,449	-	37,449
Capital outlay	<u>162,831</u>	<u>81,250</u>	<u>244,081</u>
Total expenditures	<u>3,790,507</u>	<u>456,874</u>	<u>4,247,381</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	(48,122)	-	(48,122)
Issuance of debt	<u>177,100</u>	<u>-</u>	<u>177,100</u>
Total other financing sources (uses)	<u>128,978</u>	<u>-</u>	<u>128,978</u>
NET CHANGE IN FUND BALANCES	414,776	-	414,776
FUND BALANCES, June 30, 2014	<u>120,159</u>	<u>-</u>	<u>120,159</u>
FUND BALANCES, June 30, 2015	<u>\$ 534,935</u>	<u>\$ -</u>	<u>\$ 534,935</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, 2015

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ -	\$ -	\$ -
District funding	-	-	-
Federal and state grants	-	125,000	125,000
Other income	-	-	-
Total revenues	-	125,000	125,000
EXPENDITURES			
Current:			
Instructional	-	-	-
Food services	-	-	-
Occupancy	-	-	-
Office	-	974	974
Organizational development	8,467	-	8,467
Other	-	3,492	3,492
Professional services and fees	-	2,000	2,000
Employee compensation	3,038	116,387	119,425
Staff development	120	-	120
Transportation	318	2,147	2,465
Debt Service			
Principal	-	-	-
Interest	-	-	-
Capital outlay	150,762	-	150,762
Total expenditures	162,705	125,000	287,705
OTHER FINANCING SOURCES:			
Transfers in	48,122	-	48,122
Issuance of debt	24,000	-	24,000
Total other financing sources	72,122	-	72,122
NET CHANGE IN FUND BALANCES	(90,583)	-	(90,583)
FUND BALANCES, June 30, 2014	-	-	-
FUND BALANCES (DEFICIT), June 30, 2015	<u>\$ (90,583)</u>	<u>\$ -</u>	<u>\$ (90,583)</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, 2015

As of June 30, 2015, 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, 2015, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements and have issued our report thereon dated February 23, 2016.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (Item # 2015-001).



To the Board of Directors
STEM Preparatory Academy

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*.

STEM Preparatory Academy's Response to Findings

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

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 + Associates, P.C.

Nashville, Tennessee
February 23, 2016



Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

To the Board of Directors
STEM Preparatory Academy
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited STEM Preparatory Academy's ("STEM") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of STEM's major federal programs for the year ended June 30, 2015. STEM's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of STEM's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about STEM's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of STEM's compliance.



To the Board of Directors
STEM Preparatory Academy

Opinion on the Major Federal Programs

In our opinion, STEM complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered STEM's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of STEM's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crosslin & Associates, P.C.

Nashville, Tennessee
February 23, 2016

STEM PREPARATORY ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Major Programs

CFDA Number	Grantor	Name of Federal Program	Amount Expended
84.010	Department of Education	Title I, Part A Cluster	\$191,359
84.282	Department of Education	Charter School Program (CSP)	125,000

Dollar threshold used to distinguish between type A and type B program \$300,000

Auditee qualified as low-risk auditee Yes X No

STEM PREPARATORY ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
YEAR ENDED JUNE 30, 2015

II. FINANCIAL STATEMENT FINDING

ITEM #2015-001

CAPITAL ASSETS

Criteria, Condition, Context, Cause and Effect

During our audit procedures, we noted errors in the recording and calculation of STEM's depreciation related to capital assets. Errors included incorrectly calculating the monthly depreciation expense charged to several assets, resulting in an understatement of depreciation expense and related accumulated depreciation for the year.

Recommendation and Benefit

We recommend STEM continue to evaluate and improve the accounting process for calculating and recording of depreciation expense. Additional controls should be placed over the calculation of depreciation expense. We recommend an additional member of management review the calculations to ensure the accuracy of the schedule. If practicable, we also recommend that STEM consider transitioning to a capital asset software designed specifically to account for capital asset transactions.

Management's Response

- Effective July 1, 2015, prior to discovery of the error in Excel, our accounting partner CFO Business Strategies with our approval transitioned the fixed asset records and depreciation records to a capital asset software designed specifically to account for capital asset transactions. The application mitigates the concern for the manual errors that could occur in Excel.
- Fiscal year 2016 depreciation expense and accumulated depreciation have been reviewed again within the new software system for the items that were incorrect on the Excel sheet and verified to be accurate for the current fiscal year.
- Depreciation methods and calculations in the new application will be reviewed quarterly, both internally by CFO Business Strategies, and by the Organization's Director of Finance. The result of these reviews will be communicated within 10 business days of quarter-end. Any discrepancies will be addressed, as well as communicated to the Board.

STEM PREPARATORY ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

STEM Preparatory Academy had no audit findings for the year ended June 30, 2014.