

STEM PREPARATORY ACADEMY

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018**

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



Independent Auditor's Report

To the Board of Directors
STEM Preparatory Academy
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of STEM Preparatory Academy, operating Tennessee Public Charter Schools STEM Preparatory Academy Middle School and STEM Preparatory Academy High School, (collectively "STEM") as of and for the year ended June 30, 2018, 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, 2018, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of American require that the management's discussion and analysis on pages 5 - 13 and the schedule of proportionate share of the net pension liability (asset) and schedule of employer contributions on pages 44 - 47 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 49 - 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee and are not a required part of the basic financial statements.



To the Board of Directors
STEM Preparatory Academy

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019, on our consideration of STEM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEM's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STEM's internal control over financial reporting and compliance.

Nashville, Tennessee
January 18, 2019

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, 2018 as compared to 2017. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

STEM's governmental activities total assets and deferred outflows of resources increased by \$1,096,189 in 2018 or 14%, while total liabilities and deferred inflows of resources increased \$398,763 or 6.5%. Both increases are attributable to increases in capital assets and long-term debt with additions to the high school. Total revenues for STEM increased by \$1,600,769 or 18.4%. STEM's governmental activities total program costs for 2018 increased \$1,128,164 or 19%. Overall, STEM's 2018 change in net position, \$697,426, was \$346,105 more than the prior year. The increase in total revenues and costs over the prior year was directly related to the continued growth of STEM, including the addition of the inaugural 11th grade class at the high school.

For the General Purpose School Fund there was an increase in fund balance of \$1,104,775. The General Purpose School Fund - fund balance at fiscal year-end was \$1,326,776. The increase in fund balance is due to an increase in district funding related to adding the 11th grade and cash received from the issuance of a construction loan at the end of the fiscal year.

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 14.

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 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 17 and 19.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STEM's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year, resulting in net position of \$2,399,808. STEM's net position includes \$1,645,355 of cash and cash equivalents. All cash is available to meet STEM's ongoing operating activities and growth strategy.

As of June 30, 2018, STEM had invested a total of \$6,334,463 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 2018-2019 school year, as student enrollment increases with the addition of a 12th grade class at the high school. With the additional students, there will be continued requirements for furniture, computers and equipment.

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

In August of 2013 management secured a long-term lease with the Metropolitan Government of Nashville and Davidson County ("Metro"), which includes considerations for capital improvements. The agreement was amended in July 2014 to include additional properties to be leased by STEM. STEM also secured a construction loan to fund improvements to the schools. As of June 30, 2018, STEM has an outstanding principal balance of \$4,378,101 on their construction loans. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. STEM also has an equipment loan that has an outstanding principal of \$249,822 as of June 30, 2018. In addition, STEM purchased a modular classroom for the high school campus at year-end with total costs including installation of \$598,435 to be placed in service for the 2018-2019 school year. 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Current assets	\$1,939,314	\$ 884,013
Noncurrent assets	<u>6,427,289</u>	<u>6,381,080</u>
Total assets	<u>8,366,603</u>	<u>7,265,093</u>
Deferred outflows of resources	<u>583,855</u>	<u>589,176</u>
Current liabilities	1,409,736	1,396,531
Noncurrent liabilities	<u>3,913,193</u>	<u>3,532,982</u>
Total liabilities	<u>5,322,929</u>	<u>4,929,513</u>
Deferred inflows of resources	<u>1,227,721</u>	<u>1,222,374</u>
Net position:		
Net investment in capital assets	1,706,540	2,249,689
Unrestricted	<u>693,268</u>	<u>(547,307)</u>
Total net position	<u>\$2,399,808</u>	<u>\$ 1,702,382</u>

STEM had deferred inflows of \$161,253 for future rent, \$511,000 for a tenant improvement reimbursement, and \$555,468 related to pensions at June 30, 2018. Deferred outflows totaling \$583,855 related to pensions.

STEM's total net position increased \$697,426 during the 2018 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 increased district funding, coupled with effective cost containment.

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

Total revenues generated from government grants, governmental funds, and donations were \$10,214,556 during the 2018 fiscal year which is \$1,597,221 or 18.5% increase over 2017. Contributions from individuals and organizations were \$110,173 greater than 2017. The increase in contributions from individuals is due to continued efforts to sustain contribution and private grant income. STEM realized an overall increase in federal funding compared to 2017 as a result of increased funding from Title I and IDEA programs due to increased enrollment. District funding was also awarded in 2018 for STEM's sixth academic year. The main driver of this award is student enrollment, which increased due to the addition of a 11th grade class. STEM focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to start their sixth academic year with an enrollment of 868.

Total expenses were \$9,616,209 during the 2018 fiscal year, which was \$1,254,664 higher than 2017. The majority of this increase is directly related to hiring of additional teachers, instructional expenses related to the addition of a 11th grade class, occupancy, and expansion costs related to the additional growth of the middle and high schools.

A schedule of STEM's revenue and expenses for the years ended June 30, 2018 and 2017, is as follows. The schedule is for the organization as a whole, not for the governmental funds.

	<u>2018</u>	<u>2017</u>
Revenues		
Contributions	\$ 693,249	\$ 583,076
District funding	8,686,308	7,403,304
Federal and state grants	834,999	630,955
Other	<u>99,079</u>	<u>95,531</u>
Total revenues	<u>10,313,635</u>	<u>8,712,866</u>
Expenses		
Instructional	158,040	234,560
Food Services	-	1,590
Occupancy	707,330	456,478
Office	168,023	181,243
Organizational development	75,686	93,537
Other	93,629	68,439
Service fees	719,985	671,277
Employee compensation	5,675,884	4,905,450
Staff development	76,096	95,399
Transportation	898,875	734,340
Interest	208,550	184,221
Depreciation and amortization	<u>834,111</u>	<u>735,011</u>
Total expenses	<u>9,616,209</u>	<u>8,361,545</u>
Change in net position	<u>\$ 697,426</u>	<u>\$ 351,321</u>

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

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

STEM's funds, as presented on the Balance Sheet on page 15, report a combined fund balance of \$1,326,776. All of STEM's total funds are in the General Purpose School Fund, which is the chief operating fund of the organization. STEM has two other major funds consisting of the Federal and State Grants Fund and the Restricted Contribution Fund.

Due to the different basis of accounting, there is a difference between the amounts reported under STEM's funds and the amounts reported as government-wide. For the year-ended June 30, 2018, the differences consist of capital assets, long-term debt, deferred rent, tenant improvement allowances, and pensions which are not reported in STEM's funds.

SCHOOL MISSION AND MODEL

STEM Preparatory Academy provides a college preparatory education with an integrated focus on science, technology, engineering and mathematics (STEM). In serving over 850 students within our two schools, STEM Prep Middle (5-8) and STEM Prep High (9+), we aim to increase the number of underrepresented students who (1) successfully graduate from the most competitive high schools and universities in the country, and (2) become the leaders and innovators of the 21st Century. Our vision is to become a national model of STEM learning and excellence in instructional effectiveness. We aim to become Nashville's premier public school and first choice for families in South Nashville.

STEM Preparatory Academy was founded upon three core beliefs: 1) every child deserves a rigorous, college preparatory education delivered by highly effective teachers, 2) a culture of accountability and high expectations develops learners and leaders, and 3) excellent schools are deeply and broadly tied to the communities they serve.

The STEM model is designed to ensure students master basic skills in literacy and mathematics; strengthen critical-thinking skills and knowledge in the STEM content areas; rigorously prepare for high school and college; and engage and lead peers in learning and active citizenship. Moreover, the cornerstone of the STEM academic model is inquiry-based instruction and project-based learning through a capstone project progression. These projects require students to think critically, write, research, present and build 21st Century skills that will enable them to access and persist in the jobs of the future. In addition, the school engages students in the arts and service learning, creating well-rounded students who are socially responsible and will contribute to their community.

STEM's student body is among the most diverse in the state of Tennessee. Families originate from all corners of the globe, speaking 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 90% of STEM students qualify for free or reduced-price meals, while 80% have been classified as English Learners during their academic career.

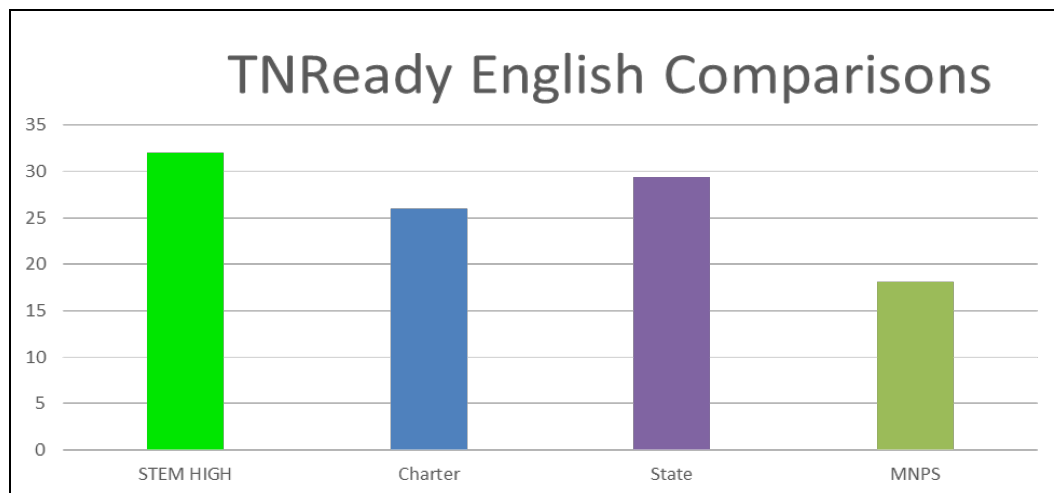
STEM PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued

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

Academic Results

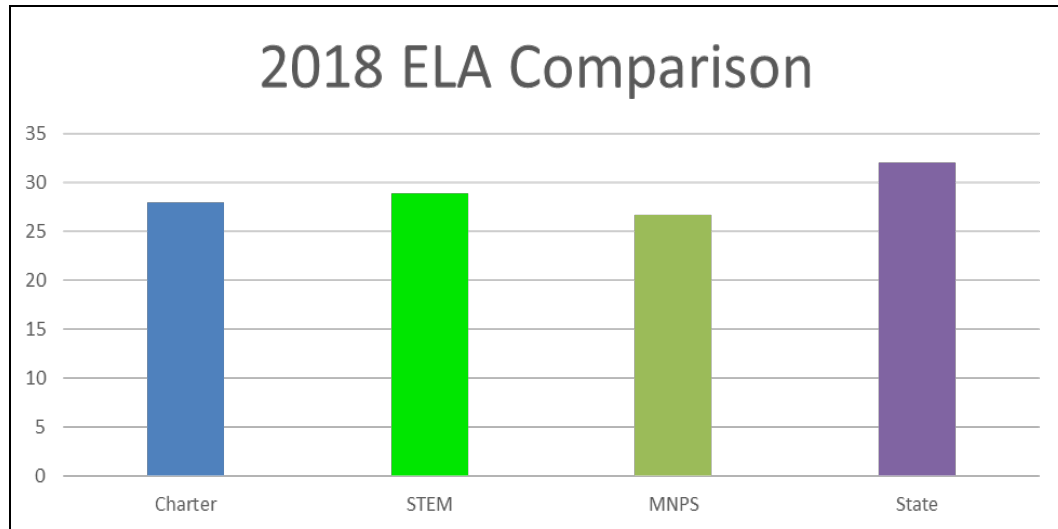
Since its inception, STEM has consistently outperformed peer schools both locally and statewide in all subject areas. The Tennessee Department of Education has regularly designated STEM as a Reward School for its academic performance. Reward schools represent the top 5% of all schools in the state. In addition, the school has consistently received the designation as a Metropolitan Nashville Public Schools Excelling School for achieving significant gains for students. The tradition of exemplary academic performance continued in 2017-2018 at both the high school and middle school levels. Highlights from 2017-2018 state testing include the following:

- STEM Prep Middle achieved the highest possible designation for student growth (Level 5) in Science, Social Studies, Literacy, and Numeracy.
- STEM Prep High achieved the highest possible designation for student growth (Level 5) in Literacy and Social Studies.
- STEM Prep juniors took the ACT for the first time, achieving higher composite scores than MNPS peer high schools.
- Both STEM Prep Middle and STEM Prep High outperformed MNPS in math.
- STEM Prep High outperformed the state, MNPS, and charter school peers in English, as shown below.



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

- STEM Prep Middle outperformed both MNPS and charter school peers in English Language Arts, as shown below.

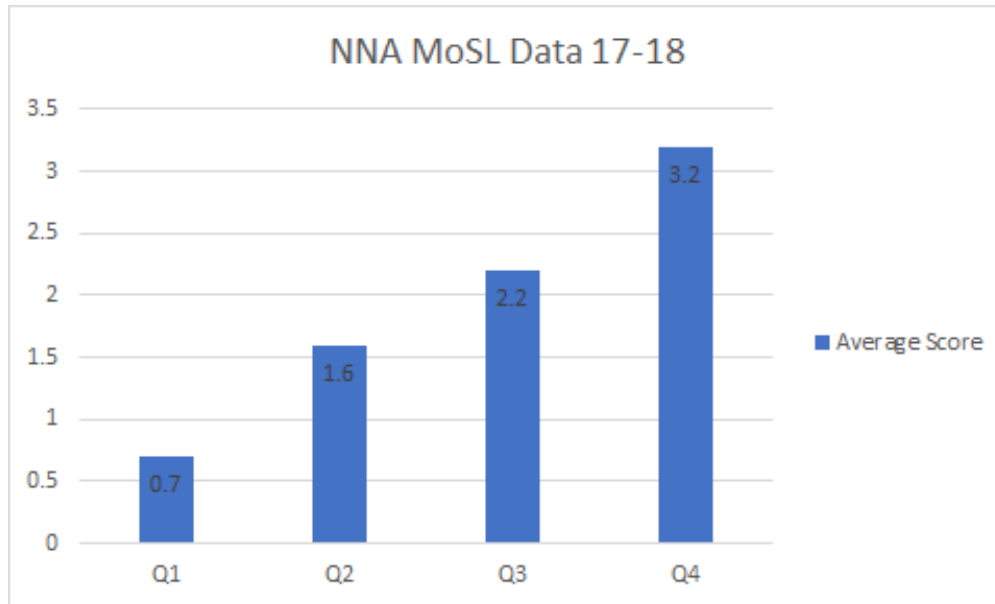


Nashville Newcomer Academy: Year Two

In a first-of-its-kind partnership, STEM launched The Nashville Newcomer Academy (NNA) with Metropolitan Nashville Public Schools and the Mayor’s Office to serve the youngest New Americans with the most urgent needs. The partnership is designed to address the unique needs of English Learners, specifically our city’s newcomer students, through direct service delivery. STEM launched the NNA in 2016-2017 and served approximately 100 newcomer students in grades five through eight. While our city’s current EL interventions and newcomer services are robust and demonstrate effectiveness, the newcomer population continues to grow exponentially year over year and additional capacity is required to ensure EL students achieve significant gains and advance in the college and career trajectory.

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

Early results from the partnership are promising. For 2017-2018, NNA students began the school year, on average, reading at a kindergarten level with many students unable to speak conversational English or identify all the letters of the alphabet. Throughout the year, students demonstrated exceptional growth and finished the year reading at a third grade level, as determined by Measures of Student Learning (MoSL).



Student and Family Counseling Program

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

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

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

In sum, STEM aims to address the mental health and emotional needs our students and families that pose material challenges to daily classroom learning. In 2017-2018, the impact of the counseling program was broad and deep, providing support to hundreds of families with a wide variety of needs. In total, the mental health team conducted over 2,000 hours of counseling, as summarized below.

Service type	Individuals served	Sessions	Hours
Crisis intervention or other immediate services	350	828	617
Long term counseling services	117	1,729	1,723
Workshops and group sessions	135	14	18
Total	602	2,571	2,358

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal year 2019 enrollment is projected to be over 520 students in the middle school (including the Newcomer Academy) and 450 students in the high school. Additionally, fiscal year 2019 will represent the third year of operations for Nashville Newcomer Academy. The school expects per pupil BEP funding to remain flat for the 2018-19 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, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,645,355
Accounts receivable	143,077
Other current assets	150,882
Capital assets, net	6,334,463
Net pension asset	<u>92,826</u>
Total assets	<u>8,366,603</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>583,855</u>
 LIABILITIES	
Accounts payable	501,585
Accrued expenses	110,953
Long-term debt due within one year	797,198
Long-term debt due in more than one year	3,830,725
Net pension liability	<u>82,468</u>
Total liabilities	5,322,929
 DEFERRED INFLOWS OF RESOURCES	
Deferred rent	161,253
Tenant improvement allowance	511,000
Pensions	<u>555,468</u>
Total deferred inflows of resources	<u>1,227,721</u>
 NET POSITION	
Net investment in capital assets	1,706,540
Unrestricted	<u>693,268</u>
Total net position	<u><u>\$ 2,399,808</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	\$ 158,040	\$ 158,040	\$ -	\$ -
Occupancy	707,330	565,864	141,466	-
Office	168,023	-	168,023	-
Organizational development	75,686	-	75,686	-
Other	93,629	92,366	1,263	-
Professional services and fees	719,985	-	719,985	-
Employee compensation	5,675,884	4,632,702	1,043,182	-
Staff development	76,096	58,549	17,547	-
Transportation	898,875	898,875	-	-
Interest	208,550	-	208,550	-
Depreciation	834,111	667,289	166,822	-
Total expenses	9,616,209	7,073,685	2,542,524	-
PROGRAM REVENUES				
Operating grants and contributions	522,999	522,999	-	-
Capital grants and contributions	312,000	312,000	-	-
Net program expenses	8,781,210	\$ 6,238,686	\$ 2,542,524	\$ -
GENERAL REVENUES				
Contributions	693,249			
District funding	8,686,308			
Other	99,079			
Total general revenues	9,478,636			
CHANGE IN NET POSITION	697,426			
NET POSITION, June 30, 2017	1,702,382			
NET POSITION, June 30, 2018	\$ 2,399,808			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,645,355	\$ -	\$ -	\$ 1,645,355
Accounts receivable	24,290	118,787	-	143,077
Due from other funds	118,787	-	-	118,787
Other current assets	150,882	-	-	150,882
Total assets	<u>\$ 1,939,314</u>	<u>\$ 118,787</u>	<u>\$ -</u>	<u>\$ 2,058,101</u>
LIABILITIES				
Accounts payable	\$ 501,585	\$ -	\$ -	\$ 501,585
Accrued expenditures	110,953	-	-	110,953
Due to other funds	-	118,787	-	118,787
Total liabilities	612,538	118,787	-	731,325
FUND BALANCES				
Nonspendable	150,882	-	-	150,882
Unassigned	1,175,894	-	-	1,175,894
Total fund balances	<u>1,326,776</u>	<u>-</u>	<u>-</u>	<u>1,326,776</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,939,314</u>	<u>\$ 118,787</u>	<u>\$ -</u>	<u>\$ 2,058,101</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2018

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	\$ 1,326,776
Capital assets not reported in the balance sheet	6,334,463
Pension amounts not reported in the balance sheet	
Net pension asset	92,826
Net pension liability	(82,468)
Deferred inflows of resources for pensions	(555,468)
Deferred outflows of resources for pensions	583,855
Long-term debt	(4,627,923)
Deferred inflows of resources related to deferred rent	(161,253)
Deferred inflows of resources for tenant improvements	<u>(511,000)</u>
Net position of governmental activities in the statement of net position	<u>\$ 2,399,808</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, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 233,249	\$ -	\$ 460,000	\$ 693,249
District funding	8,686,308	-	-	8,686,308
Federal and state grants	-	834,999	-	834,999
Other income	99,079	-	-	99,079
Total revenues	<u>9,018,636</u>	<u>834,999</u>	<u>460,000</u>	<u>10,313,635</u>
EXPENDITURES				
Current:				
Instructional	158,040	-	-	158,040
Occupancy	739,419	-	-	739,419
Office	168,023	-	-	168,023
Organizational development	75,686	-	-	75,686
Other	93,629	-	-	93,629
Professional services and fees	689,985	-	30,000	719,985
Employee compensation	4,826,596	522,999	430,000	5,779,595
Staff development	76,096	-	-	76,096
Transportation	898,875	-	-	898,875
Debt service:			-	
Principal	796,776	-	-	796,776
Interest	208,550	-	-	208,550
Capital outlay	<u>505,333</u>	<u>312,000</u>	<u>-</u>	<u>817,333</u>
Total expenditures	<u>9,237,008</u>	<u>834,999</u>	<u>460,000</u>	<u>10,532,007</u>
OTHER FINANCING SOURCES:				
Issuance of debt	<u>1,323,147</u>	<u>-</u>	<u>-</u>	<u>1,323,147</u>
NET CHANGE IN FUND BALANCES	1,104,775	-	-	1,104,775
FUND BALANCES, June 30, 2017	<u>222,001</u>	<u>-</u>	<u>-</u>	<u>222,001</u>
FUND BALANCES, June 30, 2018	<u>\$ 1,326,776</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,326,776</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, 2018

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

Net change in fund balances as reported in the governmental funds statements	\$ 1,104,775
Issuance of debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(1,323,147)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	817,333
Principal payments on long-term debt	796,776
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation and amortization expense	(834,111)
Occupancy expense increase associated with deferred rent and tenant improvement allowance	32,089
Expenditures for pensions in the governmental funds consists of contributions made, whereas in the school-wide statement, negative pension expense is calculated in accordance with GASB No. 68.	<u>103,711</u>
Change in net position of governmental activities	<u>\$ 697,426</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018

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, 2018. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. STEM reports the following major governmental funds:

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

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

The Restricted Contribution Fund is used to account for the receipt and disbursement of private contributions restricted primarily for specific purposes.

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

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018

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 \$161,253 in deferred rent and \$511,000 for deferred tenant improvements (see Note F), and pensions which relate to differences between expected and actual experience and differences between projected and actual investment earnings.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Balances

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

Interfund balance of \$118,787 between the General Purpose School Fund and the Federal and State Grants Fund represents grant expenditures made by the General Purpose School Fund in advance of grant receipts by the Federal and State Grants Fund.

Commitments, Contingencies and Risk Management

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

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

B. DEPOSITS WITH FINANCIAL INSTITUTION

STEM's policies limit deposits to those instruments allowable by state laws. Deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by STEM's agent in their name, or by the Federal Reserve Bank, acting as third party agents. As of June 30, 2018, all bank deposits were fully collateralized or insured by institutions insured by the FDIC or with banks who participate in the Tennessee Bank Collateral Pool.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2018</u>
<i>Nondepreciable</i>				
Construction in progress	\$ -	\$ 598,435	\$ -	\$ 598,435
<i>Depreciable</i>				
Office equipment	101,190	20,053	-	121,243
Furniture and fixtures	423,846	20,818	-	444,664
Computer equipment	431,176	54,602	-	485,778
Leasehold improvements	<u>6,673,248</u>	<u>123,425</u>	<u>-</u>	<u>6,796,673</u>
Total depreciable				
capital assets	7,629,460	218,898	-	7,848,358
Accumulated depreciation	<u>(1,278,219)</u>	<u>(834,111)</u>	<u>-</u>	<u>(2,112,330)</u>
Capital assets, net	<u>\$ 6,351,241</u>	<u>\$(16,778)</u>	<u>\$ -</u>	<u>\$ 6,334,463</u>

Construction in progress included the purchase and ongoing maintenance of a modular classroom added to the high school campus. Estimated costs to complete are approximately \$294,000 at June 30, 2018.

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$667,289
Administration	<u>166,822</u>
	<u>\$834,111</u>

D. LINE-OF-CREDIT

STEM has a \$325,000 line-of-credit with a bank that expires in May 2020. The line of credit bears interest at the bank's base rate which was 5.25% at June 30, 2018. Substantially all assets of STEM collateralize the line of credit. The line of credit has no outstanding balance at June 30, 2018.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018 totaled \$228,350.

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, 2018 totaled \$109,469. In October 2018, the entire outstanding principal balance was paid in full.

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, 2018 totaled \$273,467.

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 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, 2018 totaled \$47,817.

In June 2016, STEM entered into a \$400,000 debt agreement to fund the purchases of furniture and equipment. The debt is collateralized by all of the furniture and equipment purchased using the funds. The loan accrued interest at a fixed rate of 4.25% annually. Principal and interest are due in monthly installments of \$7,423 through June 2021. The outstanding principal balance at June 30, 2018 totaled \$249,822.

In July 2016, STEM entered into a \$2,800,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 4.75%. Principal and interest are due in monthly installments of \$29,360 through December 2026. The outstanding principal balance at June 30, 2018 totaled \$2,459,572.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

E. LONG-TERM DEBT - Continued

In July 2017, STEM entered into a \$900,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 4.75%. Principal and interest are due in monthly installments of \$9,904 through January 2027. The outstanding principal balance at June 30, 2018 totaled \$836,279.

In June 2018, STEM entered into a \$720,000 line of credit agreement to fund additional leasehold improvements of the school's facilities. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 5.15%. Principal and interest are due in monthly installments of \$10,229 through June 2025. The outstanding principal balance at June 30, 2018 totaled \$423,147. Additional advances totaling \$272,153 were drawn from the line of credit subsequent to year-end.

The following is a summary of changes in STEM's long-term debt for governmental activities for the fiscal year ended June 30, 2018:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2018</u>
Line-of-credit	\$ 150,000	\$ -	\$150,000	\$ -
Note payable - bank	321,289	-	92,939	228,350
Note payable - bank	143,683	-	34,214	109,469
Note payable - bank	403,297	-	129,830	273,467
Note payable - bank	67,695	-	19,878	47,817
Note payable - bank	2,689,084	-	229,512	2,459,572
Note payable - bank	326,504	-	76,682	249,822
Note payable - bank	-	900,000	63,721	836,279
Note payable - bank	<u>-</u>	<u>423,147</u>	<u>-</u>	<u>423,147</u>
Total	<u>\$4,101,552</u>	<u>\$1,323,147</u>	<u>\$796,776</u>	<u>\$4,627,923</u>

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2019	\$200,437	\$ 797,198
2020	162,537	828,650
2021	127,567	626,951
2022	101,617	467,272
2023	81,671	389,496
Thereafter	<u>133,123</u>	<u>1,518,356</u>
	<u>\$806,952</u>	<u>\$4,627,923</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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 \$40,911 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$161,253 at June 30, 2018, and presented with deferred inflows of resources.

During 2016, STEM received \$730,000 in tenant leasehold improvement allowances to fund improvements towards the Newcomer Academy program at the middle school. Such amount has been recorded as a deferred inflow of resources on the school-wide financial statements and is being recognized as a reduction of rent expense over the life of the related improvements, resulting in a reduction of rent totaling \$73,000 for the year ended June 30, 2018. The net tenant improvement allowance totals \$511,000 at June 30, 2018, and is presented with deferred inflows of resources.

STEM’s rent expense for the period ended 2018, net of the amortization related to deferred inflows, totaled \$(32,089) related to deferred rent and the tenant improvement allowance.

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. LEASING EXPENSES - Continued

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

Year Ending June 30,

2019	\$ 522,088
2020	466,595
2021	469,712
2022	472,891
2023	491,445
2024 - 2026	<u>1,008,387</u>
	<u>\$3,431,118</u>

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

G. FUND BALANCES

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

H. CONCENTRATIONS

STEM received 84% 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, 2018, was \$8,686,308. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS

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

Certificated Employees

Tennessee Consolidated Retirement System (“TCRS”):

Teachers Legacy Pension Plan

Teachers Retirement Plan (collectively the “TCRS Plans”)

Non-Certificated Employees

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

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

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

(I.) TCRS Plans

(A) General Information - TCRS Plans

Description of the TCRS Plans

Teachers with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by Local Education Agencies (LEAs) after June 30, 2014.

The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.state.tn.us/tcrs/.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

Benefits Provided

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

Teachers Legacy Pension Plan

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

Teachers Retirement Plan

Members of the Teacher Retirement Plan are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the July 2 of the previous year.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

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

Contributions

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

Teachers Legacy Pension Plan

Employer contributions by STEM for the year ended June 30, 2018, to the Teacher Legacy Pension Plan were \$71,946 which is 9.08 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Teachers Retirement Plan

Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except for in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. Employer contributions for the year ended June 30, 2018 to the Teacher Retirement Plan were \$112,300, which is 4.00 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

(B) Pension Liabilities (Assets) - TCRS Plans

Pension Liability (Asset)

Teachers Legacy Pension Plan

STEM reported an asset of (\$8,066) for its proportionate share of the net pension asset. The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension (asset) was determined by an actuarial valuation as of that date. STEM's proportion of the net pension liability (asset) was based on STEM's contributions to the pension plan relative to the contributions of all participating LEA's. At the measurement date of June 30, 2017, STEM's proportion was 0.024653 percent. The proportion measured as of June 30, 2016 was 0.019943 percent.

Teachers Retirement Plan

At June 30, 2018, STEM reported an asset of (\$84,760) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability (asset) used to calculate the net pension asset was determined by an actuarial value as of that date. STEM's proportion of the net pension liability (asset) was based on the STEM's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2017, STEM's proportion was 0.321268 percent. The proportion measured as of June 30, 2016 as 0.286628 percent.

Actuarial Assumptions

Teachers Legacy Pension Plan and Teachers Retirement Plan

The total pension liability (asset) in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	2.25 percent

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of Assumptions

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

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

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.39%	10%
Short-term securities	0.00%	1%
		<hr/> 100%

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

Discount Rate

Teachers Legacy Pension Plan and Teachers Retirement Plan

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

I. Metro Plan

(A) General Information - Metro Plan

Plan Description

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

Benefits Provided

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

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

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

Contributions

The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All funding is provided under an actuarially recommended employee contribution rate of 12.340 percent for the non-certificate employees of the Metropolitan Nashville Public Schools, including charter schools, and all other Metropolitan Government Employees. Contributions to the plan for the year ended June 30, 2018 were \$69,746.

(B) Pension Liabilities - Metro Plan

Pension Liability

STEM reported a liability of \$82,468 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. STEM's proportion of the net pension liability was based on STEM's employee contributions to the pension plan during the year ended June 30, 2018, relative to all contributions for 2018. At the June 30, 2018 measurement date, STEM's proportionate share was 0.091124 percent. At the June 30, 2017 measurement date, STEM's proportionate share was 0.10093 percent.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2017. Actuarial assumptions are summarized below:

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

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

In 2018, the following assumptions were changed: decreased inflation from 2.6 percent to 2.5 percent; decreased investment rate of return from 7.5 percent to 7.25 percent; decreased cost-of-living adjustment from 1.5 percent to 1.25 percent; and modified mortality assumptions.

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.1%	24%
International equity	5.3%	16%
Private equity	7.9%	10%
Equity hedge	7.9%	10%
Real estate	4.9%	10%
Core plus fixed income	2.3%	20%
Fixed income alternatives	2.7%	10%
		100%

Discount Rate

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

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

Pension Liabilities (Assets)

STEM reports the following net pension liability (asset) as of June 30, 2018:

TCRS Legacy Plan	\$(8,066)
TCRS Retirement Plan	<u>(84,760)</u>
Net pension (asset)	<u>\$(92,826)</u>
Metro Plan	<u>\$ 82,468</u>
Net pension liability	<u>\$ 82,468</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

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

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

	<u>1% Decrease (6.25)%</u>	<u>Current Discount Rate (7.25)%</u>	<u>1% Increase (8.25)%</u>
Proportionate share of the net pension liability (asset):			
TCRS Legacy Plan	\$ 723,750	\$(8,066)	\$(612,960)
TCRS Retirement Plan	16,911	(84,760)	(159,340)
Metro Plan	<u>410,104</u>	<u>82,468</u>	<u>(227,868)</u>
Total	<u>\$1,150,765</u>	<u>\$(10,358)</u>	<u>\$(1,000,168)</u>

Pension Plan Fiduciary Net Position

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

Pension Expense

For the year ended June 30, 2018, STEM recognized pension expense (negative pension expense) as follows:

TCRS Legacy Plan	\$(59,654)
TCRS Retirement Plan	(70,571)
Metro Plan	<u>26,514</u>
Negative pension expense	<u>\$(103,711)</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2018, STEM reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resource</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
TCRS Legacy Plan	\$ 4,863	\$166,525
TCRS Retirement Plan	2,971	6,375
Metro Plan	-	66,051
Changes in assumptions		
TCRS Legacy Plan	68,314	-
TCRS Retirement Plan	7,447	-
Metro Plan	82,880	-
Net difference between projected and actual earnings on pension plan investments		
TCRS Legacy Plan	1,224	-
TCRS Retirement Plan	-	4,561
Metro Plan	-	89,107
Changes in proportion of Net Pension Liability (Asset)		
TCRS Legacy Plan	214,669	214,258
TCRS Retirement Plan	137	3,834
Metro Plan	17,104	4,757
Contributions subsequent to the measurement date of June 30, 2017		
TCRS Legacy Plan	71,946	
TCRS Retirement Plan	<u>112,300</u>	<u>N/A</u>
Totals	<u>\$583,855</u>	<u>\$555,468</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

I. PENSION PLANS - Continued

STEM's employer contributions of \$184,246 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	TCRS		Metro Plan	Total
	Legacy Plan	Retirement Plan		
2019	\$ (44,516)	\$ (729)	\$ (5,229)	\$ (50,474)
2020	38,001	(729)	(17,552)	19,720
2021	(7,584)	(990)	(51,466)	(60,040)
2022	(77,614)	(2,161)	(12,898)	(92,673)
2023	-	(12)	8,164	8,152
Thereafter	-	404	19,049	19,453

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

Payable to the Pension Plans

At June 30, 2018, STEM reported payables for the outstanding amount of contributions to the pension plans for the year ended June 30, 2018, as follows:

TCRS Legacy Plan	\$ 8,633
TCRS Retirement Plan	12,580
Metro Plan	3,395
	<u>\$ 24,608</u>

J. COMMITMENTS AND CONTINGENCIES

In July 2016, STEM entered into an agreement with the Metropolitan Board of Public Education for busing services to include operating bus routes, providing drivers, buses, and maintenance of equipment. Fees under the agreement include \$350 per bus per day, bus monitoring fees of \$150 per monitor per day of actual use, overtime pay for drivers, and an annual routing fee of \$1,500 per school. The agreement commenced July 31, 2016 for 5 years ending July 30, 2021. Transportation expense relating to bus routes for the year ended June 30, 2018 was \$874,979.

In March 2017, the Metropolitan Board of Education announced the termination of all transportation agreements with area charter schools. This shortened the original 5-year agreement to 2 years with the term ending in May 2018.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

J. COMMITMENTS AND CONTINGENCIES - Continued

In March 2018, STEM entered into an agreement for the operation and support services of the student transportation system. The vendor is an independent contractor that has agreed to use STEM's facilities and equipment (See Note F). The agreement commenced July 1, 2018 for 7 years ending June 30, 2025 with an option to renew for an additional 5-year period at the end of the initial term. Annual costs throughout the life of the agreement are estimated at \$820,730 per year.

K. SUBSEQUENT EVENTS

STEM has evaluated subsequent events through January 18, 2019, the date at which the financial statements were available for issuance, and has determined that except for the notes payable transactions described in Note E, and the lease commencing in July 2018 disclosed in Note F, there are no additional subsequent events requiring disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

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

<u>Teachers Legacy Plan of TCRS</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
Proportion of the net pension liability (asset)	0.02720%	0.02327%	0.01994%	0.02465%
Proportionate share of the of the net pension liability (asset)	\$ (4,424)	\$ 9,532	\$ 124,632	\$ (8,066)
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 719,896	\$ 871,465
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.411%	1.094%	17.313%	-0.926%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%	100.14%
<u>Teachers Retirement Plan of TCRS</u>	<u>2015 (1)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Measurement date		June 30, 2015	June 30, 2016	June 30, 2017
Proportion of the net pension liability (asset)		0.29806%	0.28663%	0.32127%
Proportionate share of the of the net pension liability (asset)		\$ (11,991)	\$ (29,839)	\$ (84,760)
Covered payroll		\$ 619,296	\$ 1,261,173	\$ 2,223,741
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll		-1.94%	-2.37%	-3.81%
Plan fiduciary net position as a percentage of the total pension liability		127.46%	121.88%	126.81%

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

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

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

See independent auditor's report.

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

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

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

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

See independent auditor's report.

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

<u>Teachers Legacy Pension Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial Determined Contributions (ADC)	\$ 94,891	\$ 78,745	\$ 64,966	\$ 78,781	\$ 71,946
Contributions in relation to the actuarially determined contribution	<u>94,891</u>	<u>78,745</u>	<u>64,966</u>	<u>78,781</u>	<u>71,946</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 718,650	\$ 871,471	\$ 792,357
Contributions as a percentage of covered payroll	8.88%	9.04%	9.04%	9.04%	9.08%
<u>Teachers Retirement Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial Determined Contributions (ADC)	N/A	\$ 15,482	\$ 31,570	\$ 84,344	\$ 112,300
Contributions in relation to the actuarially determined contribution		<u>24,771</u>	<u>50,547</u>	<u>84,344</u>	<u>112,300</u>
Contribution deficiency (excess)		<u>\$ (9,289)</u>	<u>\$ (18,977)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll		\$ 619,296	\$ 1,263,675	\$ 2,223,741	\$ 2,807,500
Contributions as a percentage of covered payroll		4.00%	4.00%	3.79%	4.00%
<u>Metro Plan</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Actuarial Determined Contributions (ADC)	\$ 41,059	\$ 69,986	\$ 70,794	\$ 74,555	\$ 69,746
Contributions in relation to the actuarially determined contribution	<u>41,059</u>	<u>69,986</u>	<u>70,794</u>	<u>74,555</u>	<u>69,746</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 239,873	\$ 389,092	\$ 456,441	\$ 604,173	\$ 565,203
Contributions as a percentage of covered payroll	17.117%	17.987%	15.510%	12.340%	12.340%

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

See independent auditor's report.

STEM PREPARATORY ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS - Continued

NOTES TO SCHEDULE

	TCRS Plans	Metro Plan
Valuation date	June 30, 2016	July 1, 2017
Actuarially determined contribution rates are calculated as of	June 30, 2016	July 1, 2017
Methods and assumptions used to determine contribution rates:		
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar closed	Level dollar closed
Amortization period	20 years	30 years
Asset valuation method	10 year smoothed within a 20% corridor to market value	5 year smoothed market
Mortality	Customized table based on actual experience	115% RP-2014 Blue Collar Table
Investment rate of return	7.50%	7.25%
Projected salary increases	4.25% **	4.00%
Inflation	3.00%	2.50%
Cost of living adjustments	2.50%	1.25%

** Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation. Amount reported above is the average projected increase

See independent auditor's report.

OTHER INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2018

<u>Program Name/Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	N/A	370,187
Title III Emerging Immigrant Education Program	84.365	N/A	26,076
Title II Part A Improving Teacher Quality State Grants	84.367	N/A	11,407
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	<u>115,330</u>
Total U.S. Department of Education			<u>523,000</u>
Total Federal Awards			<u>523,000</u>
<u>State Financial Assistance</u>			
TENNESSEE DEPARTMENT OF EDUCATION:			
Basic Education Program	N/A	N/A	187,000
High Quality Charter School Facilities Program Grant	N/A	N/A	125,000
Passed through Metropolitan Nashville Public Schools			
Basic Education Program	N/A	N/A	<u>8,686,308</u>
Total State Awards			<u>8,998,308</u>
Total Federal and State Awards			<u>\$ 9,521,308</u>

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

See independent auditor's report.

SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES BY SCHOOL
STEM PREPARATORY ACADEMY MIDDLE SCHOOL
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 962,234	\$ -	\$ -	\$ 962,234
Receivables	13,369	104,415	-	117,784
Due from other funds	104,415	-	-	104,415
Other current assets	73,408	-	-	73,408
Total assets	<u>\$ 1,153,426</u>	<u>\$ 104,415</u>	<u>\$ -</u>	<u>\$ 1,257,841</u>
LIABILITIES				
Accounts payable	\$ 65,529	\$ -	\$ -	\$ 65,529
Accrued expenditures	60,558	-	-	60,558
Due to other funds	-	104,415	-	104,415
Total liabilities	<u>126,087</u>	<u>104,415</u>	<u>-</u>	<u>230,502</u>
FUND BALANCES				
Nonspendable	73,408	-	-	73,408
Unassigned	953,931	-	-	953,931
Total fund balances	<u>1,027,339</u>	<u>-</u>	<u>-</u>	<u>1,027,339</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,153,426</u>	<u>\$ 104,415</u>	<u>\$ -</u>	<u>\$ 1,257,841</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, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 683,121	\$ -	\$ -	\$ 683,121
Receivables	10,921	14,372	-	25,293
Due from other funds	14,372	-	-	14,372
Other current assets	<u>77,474</u>	<u>-</u>	<u>-</u>	<u>77,474</u>
Total assets	<u>\$ 785,888</u>	<u>\$ 14,372</u>	<u>\$ -</u>	<u>\$ 800,260</u>
LIABILITIES				
Accounts payable	\$ 436,056	\$ -	\$ -	\$ 436,056
Accrued expenditures	50,395	-	-	50,395
Due to other funds	<u>-</u>	<u>14,372</u>	<u>-</u>	<u>14,372</u>
Total liabilities	<u>486,451</u>	<u>14,372</u>	<u>-</u>	<u>500,823</u>
FUND BALANCES				
Nonspendable	77,474	-	-	77,474
Unassigned	<u>221,963</u>	<u>-</u>	<u>-</u>	<u>221,963</u>
Total fund balances	<u>299,437</u>	<u>-</u>	<u>-</u>	<u>299,437</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 785,888</u>	<u>\$ 14,372</u>	<u>\$ -</u>	<u>\$ 800,260</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, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 128,528	\$ -	\$ 379,000	\$ 507,528
District funding	5,185,687	-	-	5,185,687
Federal and state grants	-	424,130	-	424,130
Other income	80,363	-	-	80,363
Total revenues	<u>5,394,578</u>	<u>424,130</u>	<u>379,000</u>	<u>6,197,708</u>
EXPENDITURES				
Current:				
Instructional	64,369	-	-	64,369
Occupancy	311,414	-	-	311,414
Office	91,134	-	-	91,134
Organizational development	40,755	-	-	40,755
Other	42,691	-	-	42,691
Professional services and fees	411,589	-	16,500	428,089
Employee compensation	2,798,234	326,130	362,500	3,486,864
Staff development	35,722	-	-	35,722
Transportation	480,123	-	-	480,123
Debt Service				
Principal	127,153	-	-	127,153
Interest	21,601	-	-	21,601
Capital outlay	<u>(57,820)</u>	<u>98,000</u>	<u>-</u>	<u>40,180</u>
Total expenditures	<u>4,366,965</u>	<u>424,130</u>	<u>379,000</u>	<u>5,170,095</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(172,803)</u>	<u>-</u>	<u>-</u>	<u>(172,803)</u>
NET CHANGE IN FUND BALANCES	854,810	-	-	854,810
FUND BALANCES, June 30, 2017	<u>172,529</u>	<u>-</u>	<u>-</u>	<u>172,529</u>
FUND BALANCES, June 30, 2018	<u>\$ 1,027,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,339</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, 2018

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 104,721	\$ -	\$ 81,000	\$ 185,721
District funding	3,500,621	-	-	3,500,621
Federal and state grants	-	410,869	-	410,869
Other income	18,716	-	-	18,716
Total revenues	<u>3,624,058</u>	<u>410,869</u>	<u>81,000</u>	<u>4,115,927</u>
EXPENDITURES				
Current:				
Instructional	93,671	-	-	93,671
Occupancy	428,005	-	-	428,005
Office	76,889	-	-	76,889
Organizational development	34,931	-	-	34,931
Other	50,938	-	-	50,938
Professional services and fees	278,396	-	13,500	291,896
Employee compensation	2,028,362	196,869	67,500	2,292,731
Staff development	40,374	-	-	40,374
Transportation	418,752	-	-	418,752
Debt Service	-	-	-	-
Principal	669,623	-	-	669,623
Interest	186,949	-	-	186,949
Capital outlay	563,153	214,000	-	777,153
Total expenditures	<u>4,870,043</u>	<u>410,869</u>	<u>81,000</u>	<u>5,361,912</u>
OTHER FINANCING SOURCES:				
Transfers in	172,803	-	-	172,803
Issuance of debt	1,323,147	-	-	1,323,147
Total other financing sources	<u>1,495,950</u>	<u>-</u>	<u>-</u>	<u>1,495,950</u>
NET CHANGE IN FUND BALANCES	249,965	-	-	249,965
FUND BALANCES, June 30, 2017	<u>49,472</u>	<u>-</u>	<u>-</u>	<u>49,472</u>
FUND BALANCES, June 30, 2018	<u>\$ 299,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 299,437</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, 2018

As of June 30, 2018, 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; includes ninth through eleventh grade in fiscal year 2018)

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, 2018, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements and have issued our report thereon dated January 18, 2019.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of STEM's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Nashville, Tennessee
January 18, 2019

STEM PREPARATORY ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

None reported.

PRIOR YEAR AUDIT FINDINGS

No prior audit findings.