

STEM PREPARATORY ACADEMY
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2021

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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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, 2021, 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, 2021, 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 - 11 and the schedule of proportionate share of the net pension liability (asset) and schedule of employer contributions on pages 48 - 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considered it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STEM Preparatory Academy's basic financial statements. The introductory section on page 1, the schedule of changes in long-term debt by individual issue on page 52, the schedule of assets, liabilities and fund balances by school and schedule of revenues, expenditures and changes in fund balances by school on pages 53 - 57 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee, and is also not a required part of the basic financial statements.



To the Board of Directors
STEM Preparatory Academy

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2022, 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
March 28, 2022

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, 2021 as compared to 2020. 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 \$3,271,981 in 2021 or 30%, while total liabilities and deferred inflows of resources increased \$1,976,658 or 23%. Total revenues for STEM increased by \$5,255,585 or 45%. STEM's governmental activities total program costs for 2021 decreased \$138,489 or 2%. Overall, STEM's 2021 net position increased \$5,248,639. The increase was the result of an increase in per pupil BEP funding, an increase in federal funding related to the broader economic impact of COVID-19 in Nashville and throughout the state of Tennessee, and the forgiveness of a PPP loan obtained in 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING STEM AS A WHOLE

In general, users of these financial statements want to know if STEM is in a better or worse financial position as a result of the year's activities. The Statement of Net Position and Statement of Activities report information about STEM as a whole and about STEM's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 12.

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

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

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

STEM’s funds are categorized as “governmental funds.” Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called “modified accrual” accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on STEM as a whole. The relationship between governmental activities, as reported in the Statement of Net Position and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 15 and 17.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

STEM’s assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at the close of the fiscal year, resulting in net position of \$7,517,202. STEM’s net position includes \$3,955,874 of cash and cash equivalents. All cash is available to meet STEM’s ongoing operating activities and growth strategy.

As of June 30, 2021, STEM had invested a total of \$6,268,725 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment, school buses, a modular building, and leasehold improvements to the leased buildings.

In August 2013 management secured a long-term lease with the Metropolitan Government of Nashville and Davidson County (“Metro”), which includes considerations for capital improvements. The agreement was amended in July 2014 to include additional properties to be leased by STEM. STEM also secured construction loans to fund improvements to the schools. In September 2019, STEM consolidated and refinanced outstanding construction loans into a single loan. As of June 30, 2021, STEM has an outstanding principal balance of \$3,493,143 on the loan. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. During fiscal year 2019, STEM entered into two long-term capital lease agreements with a bank for the use of 17 school buses. Aggregate monthly lease payments on the school bus agreements total \$21,201. Additional information on the lease, construction loan, and property and equipment are located in the notes to the financial statements.

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

A schedule of STEM's net position as of June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Current assets	\$ 6,063,306	\$ 2,792,413
Noncurrent assets	<u>7,581,607</u>	<u>7,605,657</u>
Total assets	<u>13,644,913</u>	<u>10,398,070</u>
Deferred outflows of resources	<u>516,804</u>	<u>491,666</u>
Current liabilities	921,723	1,777,088
Noncurrent liabilities	<u>4,046,740</u>	<u>5,685,297</u>
Total liabilities	<u>4,968,463</u>	<u>7,462,385</u>
Deferred inflows of resources	<u>1,676,052</u>	<u>1,158,788</u>
Net position:		
Net investment in capital assets	1,648,780	1,838,493
Restricted	1,312,882	133,640
Unrestricted	<u>4,555,540</u>	<u>296,430</u>
Total net position	<u>\$ 7,517,202</u>	<u>\$ 2,268,563</u>

STEM had deferred inflows of \$249,158 for future rent, \$292,000 for a tenant improvement reimbursement, and \$1,134,894 related to pensions at June 30, 2021. Deferred outflows totaling \$516,804 are related to pensions.

Total revenues generated from government grants, governmental funds, and donations were \$15,574,206 during the 2021 fiscal year which is a \$3,944,867 or 34% increase over 2020. Total expenses were \$11,749,158 during the 2021 fiscal year, which was \$161,704 lower than 2020. The increase in net position was the result of an increase in per pupil BEP funding, an increased in federal funding related to the broader economic impact of COVID-19 in Nashville and throughout the state of Tennessee, and revenue recognized from the forgiveness of a PPP loan obtained in 2020.

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

A schedule of STEM's revenue and expenses for the years ended June 30, 2021 and 2020, is as follows. The schedule is for the organization as a whole, not for the governmental funds.

	<u>2021</u>	<u>2020</u>
Revenues		
Contributions	\$ 174,094	\$ 248,435
District funding	12,712,153	10,539,645
Federal and state grants	2,687,959	841,259
Other	<u>1,423,591</u>	<u>112,873</u>
Total revenues	<u>16,997,797</u>	<u>11,742,212</u>
Expenses		
Instructional	225,930	126,726
Occupancy	817,845	877,679
Office	207,103	217,235
Organizational development	47,590	54,961
Other	72,203	120,739
Service fees	946,377	969,666
Employee compensation	7,058,055	7,204,677
Staff development	105,462	87,978
Transportation	869,827	911,026
Interest	255,722	272,002
Depreciation	<u>1,143,044</u>	<u>1,068,177</u>
Total expenses	<u>11,749,158</u>	<u>11,910,866</u>
Change in net position	<u>\$ 5,248,639</u>	<u>\$ (168,654)</u>

FINANCIAL ANALYSIS OF THE ORGANIZATION'S FUNDS

STEM's funds, as presented on the Balance Sheet on page 14, report a combined fund balance of \$4,517,146. 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, 2021, the differences consist of capital assets, long-term debt, deferred rent, tenant improvement allowances, unallowable revenues for grants, and pensions which are not reported in STEM's funds.

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

SCHOOL MISSION AND MODEL

STEM Preparatory Academy provides a college preparatory education with an integrated focus on science, technology, engineering and mathematics (STEM). In serving over 1,000 students within our two schools, STEM Prep Middle (5-8) and STEM Prep High (9-12), we aim to increase the number of underrepresented students who (1) successfully graduate from the most competitive 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 over twenty different languages and adding incalculable richness to the educational experience of our students. Moreover, the school serves a higher concentration of economically disadvantaged students and English Language Learners than our peers across the city and the state. Approximately 90% of STEM students qualify for free or reduced-price meals, while 80% have been classified as English Learners during their academic career.

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

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

Nashville Newcomer Academy

In a first-of-its-kind partnership, in 2016 STEM launched The Nashville Newcomer Academy (NNA) with Metropolitan Nashville Public Schools and the Mayor's Office to serve the youngest New Americans with the most urgent needs. The partnership is designed to address the unique needs of English Learners, specifically our city's newcomer students, through direct service delivery. STEM has served approximately 220 newcomer students through the NNA program since its inception. While our city's current EL interventions and newcomer services are robust and demonstrate effectiveness, the newcomer population continues to grow exponentially year over year and additional capacity is required to ensure EL students achieve significant gains and advance in the college and career trajectory.

STEM Prep High

Class of 2021:

In May 2021, STEM graduated its third high school class, comprised predominantly of students who have been continuously enrolled at STEM since middle school. The graduating class of earned approximately \$5 million in college scholarships and 100 percent of graduates were accepted into post-secondary institutions. To support equitable access to college among our DACA students, STEM secured philanthropy to fund four years of college tuition for each DACA student.

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

Class of 2020 (a final reflection):

The STEM Prep Class of 2020 endured many hardships, as the COVID-19 pandemic effectively cut short their senior year of high school. Despite the difficult circumstances, the persistence and determination of the Class of 2020 resulted in STEM Prep High being one of only two public high schools in Nashville to increase college enrollment during the pandemic. Additionally, the Class of 2020 achieved the fourth highest college enrollment percentage of all public high schools in Nashville.

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:

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

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

In sum, STEM aims to address the mental health and emotional needs our students and families that pose material challenges to daily classroom learning. In 2020-2021, 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 1,100 hours of counseling, as summarized below.

Service type	Individuals Served	Number of sessions	Approx. hours
Crisis intervention	138	294	245
Long-term counseling	60	1,028	857
Total	198	1,322	1,102

STUDENT ENROLLMENT FACTORS AND NEXT YEAR’S BUDGET

Fiscal year 2022 enrollment is projected to be over 520 students in the middle school (including the Newcomer Academy) and 500 students in the high school. Additionally, fiscal year 2022 will represent the sixth year of operations for Nashville Newcomer Academy. The school expects per pupil BEP funding to remain flat for the 2021-22 school year. Additionally, STEM is preparing for numerous scenarios pertaining to COVID-19 related school closures.

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, 2021

	Governmental Activities
<hr/>	
ASSETS	
Cash and cash equivalents	\$ 3,955,874
Accounts receivable	2,019,252
Other current assets	88,180
Capital assets, net	6,268,725
Net pension asset	1,069,250
Restricted Asset:	
TCRS Stabilization Reserve Trust	<u>243,632</u>
 Total assets	 <u>13,644,913</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pensions	<u>516,804</u>
 LIABILITIES	
Accounts payable	116,580
Accrued expenses	231,938
Line of credit	-
Long-term debt due within one year	573,205
Long-term debt due in more than one year	4,046,740
Net pension liability	<u>-</u>
 Total liabilities	 4,968,463
 DEFERRED INFLOWS OF RESOURCES	
Deferred rent	249,158
Tenant improvement allowance	292,000
Pensions	<u>1,134,894</u>
 Total deferred inflows of resources	 <u>1,676,052</u>
 NET POSITION	
Net investment in capital assets	1,648,780
Restricted	1,312,882
Unrestricted	<u>4,555,540</u>
Total net position	<u>\$ 7,517,202</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

		Functions		
		Student Instruction and Services	Administration	Fundraising
<u>GOVERNMENTAL ACTIVITIES:</u>	<u>Total</u>			
EXPENSES				
Instructional	\$ 225,930	\$ 225,930	\$ -	\$ -
Occupancy	817,845	654,276	163,569	-
Office	207,103	-	207,103	-
Organizational development	47,590	-	47,590	-
Other	72,203	70,936	1,267	-
Professional services and fees	946,377	-	946,377	-
Employee compensation	7,058,055	5,744,172	1,313,883	-
Staff development	105,462	60,937	44,525	-
Transportation	869,827	869,827	-	-
Interest	255,722	-	255,722	-
Depreciation and amortization	1,143,044	914,435	228,609	-
Total expenses	11,749,158	8,540,513	3,208,645	-
PROGRAM REVENUES				
Operating grants and contributions	2,462,959	2,462,959	-	-
Capital grants and contributions	225,000	225,000	-	-
Net program expenses	9,061,199	\$ 5,852,554	\$ 3,208,645	\$ -
GENERAL REVENUES				
Contributions	174,094			
District funding	12,712,153			
Other	1,423,591			
Total general revenues	14,309,838			
CHANGE IN NET POSITION	5,248,639			
NET POSITION, June 30, 2020	2,268,563			
NET POSITION, June 30, 2021	\$ 7,517,202			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,955,874	\$ -	\$ -	\$ 3,955,874
Accounts receivable	251,597	326,381	-	577,978
Due from other funds	326,381	-	-	326,381
Other current assets	88,180	-	-	88,180
Restricted Asset:				
TCRS Stabilization Reserve Trust	243,632	-	-	243,632
Total assets	<u>\$ 4,865,664</u>	<u>\$ 326,381</u>	<u>\$ -</u>	<u>\$ 5,192,045</u>
LIABILITIES				
Accounts payable	\$ 116,580	\$ -	\$ -	\$ 116,580
Accrued expenditures	231,938	-	-	231,938
Due to other funds	-	326,381	-	326,381
Total liabilities	348,518	326,381	-	674,899
FUND BALANCES				
Nonspendable	88,180	-	-	88,180
Restricted				
TCRS Stabilization Reserve Trust	243,632	-	-	243,632
Internal school funds	-	-	-	-
Unassigned	4,185,334	-	-	4,185,334
Total fund balances	<u>4,517,146</u>	<u>-</u>	<u>-</u>	<u>4,517,146</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,865,664</u>	<u>\$ 326,381</u>	<u>\$ -</u>	<u>\$ 5,192,045</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2021

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	\$ 4,517,146
Capital assets not reported in the balance sheet	6,268,725
Pension amounts not reported in the balance sheet	
Net pension asset	1,069,250
Net pension liability	-
Deferred inflows of resources for pensions	(1,134,894)
Deferred outflows of resources for pensions	516,804
Long-term debt	(4,619,945)
Line of credit	-
Unavailable revenue - grants	1,441,274
Deferred inflows of resources related to deferred rent	(249,158)
Deferred inflows of resources for tenant improvements	<u>(292,000)</u>
Net position of governmental activities in the statement of net position	<u>\$ 7,517,202</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, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 174,094	\$ -	\$ -	\$ 174,094
District funding	12,712,153	-	-	12,712,153
Federal and state grants	-	1,246,685	-	1,246,685
Other income	34,512	-	-	34,512
Other income - internal school funds	2,911	-	-	2,911
Total revenues	<u>12,923,670</u>	<u>1,246,685</u>	<u>-</u>	<u>14,170,355</u>
EXPENDITURES				
Current:				
Instructional	213,019	10,000	-	223,019
Instructional - internal school funds	2,911	-	-	2,911
Occupancy	789,611	97,618	-	887,229
Office	207,103	-	-	207,103
Organizational development	47,590	-	-	47,590
Other	72,203	-	-	72,203
Professional services and fees	946,377	-	-	946,377
Employee compensation	6,815,449	512,269	-	7,327,718
Staff development	105,462	-	-	105,462
Transportation	869,827	-	-	869,827
Debt service:				
Principal	652,473	-	-	652,473
Interest	255,722	-	-	255,722
Capital outlay	(213,423)	626,798	-	413,375
Total expenditures	<u>10,764,324</u>	<u>1,246,685</u>	<u>-</u>	<u>12,011,009</u>
OTHER FINANCING SOURCES:				
Issuance of debt	<u>12,514</u>	<u>-</u>	<u>-</u>	<u>12,514</u>
NET CHANGE IN FUND BALANCES	2,171,860	-	-	2,171,860
FUND BALANCES, June 30, 2020	<u>2,345,286</u>	<u>-</u>	<u>-</u>	<u>2,345,286</u>
FUND BALANCES, June 30, 2021	<u>\$ 4,517,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,517,146</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, 2021

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	\$ 2,171,860
Issuance of long-term debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(12,514)
Unavailable revenue - grants	1,441,274
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	413,375
Principal payments on long-term debt	652,473
Forgiveness of long-term debt	1,386,168
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation and amortization expense	(1,143,044)
Occupancy expense increase associated with deferred rent and tenant improvement allowance	69,384
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>269,663</u>
Change in net position of governmental activities	<u><u>\$ 5,248,639</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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 added 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 three categories - investment in capital assets; restricted, 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, 2021

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, 2021. 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, 2021

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, 2021

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 \$249,158 in deferred rent and \$292,000 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, 2021

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, 2021

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 \$326,381 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, 2021, 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, 2021

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2021</u>
<i>Depreciable</i>				
Office equipment	\$ 123,020	\$ -	\$ -	\$ 123,020
Furniture and fixtures	482,208	-	-	482,208
Computer equipment	840,853	147,561	-	988,414
Maintenance equipment	9,800	6,326	-	16,126
Leasehold improvements	7,363,451	259,488	-	7,622,939
Buildings	858,029	-	-	858,029
Transportation	<u>1,500,020</u>	<u>-</u>	<u>-</u>	<u>1,500,020</u>
Total depreciable capital assets	11,177,381	413,375	-	11,590,756
Accumulated depreciation	<u>(4,178,987)</u>	<u>(1,143,044)</u>	<u>-</u>	<u>(5,322,031)</u>
Capital assets, net	<u>\$ 6,998,394</u>	<u>\$(729,669)</u>	<u>\$ -</u>	<u>\$ 6,268,725</u>

Depreciation and amortization was charged to governmental activities as follows:

Student instruction and services	\$ 914,435
Administration	<u>228,609</u>
	<u>\$1,143,044</u>

During fiscal year 2021, STEM leased buses under capital leases. Assets under the capital leases totaled \$1,500,020 and is included in Transportation above. Amortization of the buses held under the capital leases totaled \$150,002 at June 30, 2021, and is included in depreciation expense.

D. LINE-OF-CREDIT

STEM has a \$325,000 line-of-credit with a bank that expires in May 2022. The line of credit bears interest at the bank's base rate which was 4.00% at June 30, 2021. Substantially all assets of STEM collateralize the line of credit. The line of credit had no outstanding balance at June 30, 2021.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

E. LONG-TERM DEBT

Notes Payable

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 loan was paid in full as of June 30, 2021.

In September 2019, STEM entered into a \$3,858,251 term loan agreement in order to pay off and refinance all outstanding balances on existing line of credits with the same lender and to provide additional funds to make certain capital upgrades. The loan is collateralized by substantially all the assets of STEM. The loan accrues interest at a fixed rate of 5.25%. Principal and interest are due in monthly installments of \$41,090 through September 2024. The loan is scheduled to mature in October 2024 at which point all outstanding principal and interest will be due. The outstanding principal balance at June 30, 2021 totaled \$3,480,629.

In May 2020, STEM entered into a \$200,000 debt agreement to fund the purchase of equipment. The debt is collateralized by all of the equipment purchased using the funds. The loan accrued interest at a fixed rate of 4.25% annually. Principal and interest are due in monthly installments of \$3,712 through May 2025. The outstanding principal balance at June 30, 2021 totaled \$160,115.

On May 15, 2020, STEM received funding from the Paycheck Protection Program (“PPP”) loan in the amount of \$1,386,168 which it applied for in response to the economic impact from the COVID-19 pandemic (see Note L). The loan was subject to forgiveness if it is utilized for expenditures such as certain payroll, rent, and utility costs. The loan was forgiven during fiscal year 2021 with the proceeds being recognized as other income in the Statement of Activities.

In May 2021, STEM entered into a \$1,800,000 line-of-credit agreement to fund the renovation of the middle school cafeteria. STEM may make advances from the line up to the maximum amount of \$1,800,000 through December 2021, at which time the loan converts to a term loan. The debt is collateralized by all of the assets of the School. The loan accrued interest at a fixed rate of 5.25% annually. Interest payments are due monthly through November 2021. Beginning in December 2021, principal and interest are due in monthly installments of \$20,087 through May 2026. The outstanding principal balance at June 30, 2021 totaled \$12,514.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

E. LONG-TERM DEBT - Continued

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

The following is a summary of changes in STEM's notes payable for governmental activities for the fiscal year ended June 30, 2021:

	Balance <u>July 1, 2020</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2021</u>
Note payable - bank	\$ 86,345	\$ -	\$ 86,345	\$ -
Note payable - bank	3,709,271	-	228,642	3,480,629
Note payable - bank	196,996	-	36,881	160,115
Note payable - bank	-	12,514	-	12,514
Note payable - bank	<u>1,386,168</u>	<u>-</u>	<u>1,386,168</u>	<u>-</u>
Total	<u>\$5,378,780</u>	<u>\$ 12,514</u>	<u>\$1,738,036</u>	<u>\$3,653,258</u>

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2022	\$177,320	\$ 362,337
2023	158,587	389,499
2024	138,878	398,737
2025	52,071	2,502,685
2026	-	-
Thereafter	<u>-</u>	<u>-</u>
	<u>\$526,856</u>	<u>\$3,653,258</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

E. LONG-TERM DEBT - Continued

Capital Lease Obligations

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

A summary of changes in STEM's capital leases for governmental activities for the fiscal year ended June 30, 2021 follows:

	Balance <u>July 1, 2020</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2021</u>
Capital lease - buses	\$ 924,727	\$ -	\$163,872	\$ 760,855
Capital lease - buses	<u>242,565</u>	<u>-</u>	<u>36,733</u>	<u>205,832</u>
Total	<u>\$1,167,292</u>	<u>\$ -</u>	<u>\$200,605</u>	<u>\$ 966,687</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

E. LONG-TERM DEBT - Continued

The future minimum lease obligations as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 254,414
2023	254,414
2024	254,414
2025	254,414
2026	57,220
Thereafter	<u>-</u>
Total minimum lease payments	1,074,876
Less: amount representing interest	<u>(108,189)</u>
Present value of future minimum lease payments	966,687
Due within one year	<u>210,868</u>
Long-term portion	<u>\$ 755,819</u>

F. LEASING EXPENSES

In May 2013, STEM entered into a lease agreement with the Metropolitan Government of Nashville and Davidson County (“Metro”) to occupy educational space in South Nashville. The lease term is for 10 years commencing from August 1, 2013 with the option to extend two 5-year terms each. The lease requires STEM to pay rent in monthly installments of \$6,500 through July 2014, increasing 2% per year thereafter. The agreement also entitles STEM to credit against the payment of rent certain tenant improvements approved by Metro totaling \$674,083. The agreement was amended in July 2014 to include additional properties to be leased by STEM. The new lease term is for 10 years commencing from July 1, 2014 with the option to extend two 5-year terms each. The lease requires STEM to pay rent in monthly installments of \$11,781 through July 2015, increasing 2% per year thereafter. The agreement also entitles STEM to credit against the payment of rent certain tenant improvements approved by Metro totaling \$1,043,942. Tenant improvements were primarily funded by construction loans (See Note E). STEM recorded rent expense related to the lease based on a straight-line calculation which totaled \$43,415 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$249,158 at June 30, 2021, 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, 2021. The net tenant improvement allowance totals \$292,000 at June 30, 2021, and is presented with deferred inflows of resources.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

F. LEASING EXPENSES - Continued

STEM's rent expense for the period ended 2021, net of the amortization related to deferred inflows, totaled \$(29,585) related to deferred rent and the tenant improvement allowance.

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

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

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

Year Ending June 30,

2022	\$ 476,839
2023	495,393
2024	343,827
2025	326,076
2026	<u>342,432</u>
	<u>\$1,984,567</u>

G. FUND BALANCES

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

The General Purpose School Fund includes fund balance amounts that are restricted for the Net Pension Asset, TCRS Stabilization Reserve Trust, and Internal School Funds.

H. CONCENTRATIONS

STEM received 75% 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, 2021, was \$12,712,153. 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, 2021

I. PENSION PLANS

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

Certificated Employees

Tennessee Consolidated Retirement System (“TCRS”):

Teachers Legacy Pension Plan

Teachers Retirement Plan (collectively the “TCRS Plans”)

Non-Certificated Employees

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

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

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

(I.) TCRS Plans

(A) General Information - TCRS Plans

Description of the TCRS Plans

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

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

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

Benefits Provided

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

Teachers Legacy Pension Plan

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

Teachers Retirement Plan

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

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

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

Contributions

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

Teachers Legacy Pension Plan

Employer contributions by STEM for the year ended June 30, 2021, to the Teacher Legacy Pension Plan were \$129,546 which is 10.27 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, 2021 to the Teacher Retirement Plan were \$72,117, which is 2.02 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, 2021

I. PENSION PLANS - Continued

(B) Pension Liabilities (Assets) - TCRS Plans

Pension Liability (Asset)

Teachers Legacy Pension Plan

STEM reported an asset of (\$255,837) for its proportionate share of the net pension asset. The net pension liability (asset) was measured as of June 30, 2020, 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, 2020, STEM's proportion was 0.0335492 percent. The proportion measured as of June 30, 2019 was 0.029788 percent.

Teachers Retirement Plan

At June 30, 2021, STEM reported an asset of (\$151,403) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020, 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, 2020, STEM's proportion was 0.266257 percent. The proportion measured as of June 30, 2019 as 0.296463 percent.

Actuarial Assumptions

Teachers Legacy Pension Plan and Teachers Retirement Plan

The total pension liability (asset) in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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, 2021

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, 2021

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, 2021 were \$99,971.

(B) Pension Liabilities - Metro Plan

Pension Liability (Asset)

STEM reported an asset of \$(662,010) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2020. 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, 2021, relative to all contributions for 2021. At the June 30, 2021 measurement date, STEM's proportionate share was 0.115688 percent. At the June 30, 2021 measurement date, STEM's proportionate share was 0.108647 percent.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2020. Actuarial assumptions are summarized below:

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

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

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

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, 2021:

TCRS Legacy Plan	\$(255,837)
TCRS Retirement Plan	(151,403)
Metro Plan	<u>(662,010)</u>
Net pension (asset)	<u>\$(1,069,250)</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

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	\$ 795,648	\$(255,837)	\$(1,127,766)
TCRS Retirement Plan	117,768	(151,403)	(349,819)
Metro Plan	<u>(213,980)</u>	<u>(662,010)</u>	<u>(1,068,347)</u>
Total	<u>\$ 699,436</u>	<u>\$(1,069,250)</u>	<u>\$(2,545,932)</u>

Pension Plan Fiduciary Net Position

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

Pension Expense (Negative Pension Expense)

For the year ended June 30, 2021, STEM recognized pension expense (negative pension expense) as follows:

TCRS Legacy Plan	\$(122,579)
TCRS Retirement Plan	(13,063)
Metro Plan	<u>(134,021)</u>
Negative pension expense	<u>\$(269,663)</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2021, 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	\$ 9,726	\$123,003
TCRS Retirement Plan	5,624	37,941
Metro Plan	77,051	39,987
Changes in assumptions		
TCRS Legacy Plan	23,241	-
TCRS Retirement Plan	4,747	-
Metro Plan	60,127	-
Net difference between projected and actual earnings on pension plan investments		
TCRS Legacy Plan	57,136	-
TCRS Retirement Plan	12,335	-
Metro Plan	-	859,826
Changes in proportion of Net Pension Liability (Asset)		
TCRS Legacy Plan	16,346	67,892
TCRS Retirement Plan	24,219	3,530
Metro Plan	24,589	2,715
Contributions subsequent to the measurement date of June 30, 2020		
TCRS Legacy Plan	129,546	
TCRS Retirement Plan	<u>72,117</u>	<u>N/A</u>
Totals	<u>\$516,804</u>	<u>\$1,134,894</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

I. PENSION PLANS - Continued

STEM's employer contributions of \$201,663 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>TCRS Legacy Plan</u>	<u>TCRS Retirement Plan</u>	<u>Metro Plan</u>	<u>Total</u>
2022	\$(106,296)	\$ 590	\$(215,794)	\$(321,500)
2023	(14,117)	2,373	(189,049)	(200,793)
2024	(1,884)	3,281	(169,543)	(168,146)
2025	37,851	3,539	(188,384)	(146,994)
2026	-	(638)	15,840	15,202
Thereafter	-	(3,691)	6,154	2,462

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, 2021, STEM reported payables for the outstanding amount of contributions to the Metro pension plan totaling \$9,755 at June 30, 2021.

Defined Contribution Plan

The TCRS Retirement Plan has a defined contribution component to the plan. Under the terms of the Plan for the defined contribution component, employees contribute 2% of their salaries to the plan, but are allowed an opt out feature. STEM is required to contribute 5% of annual salaries, to an individual employee account. For the year ended June 30, 2021, STEM recognized pension expense of \$187,531 related to the defined contribution component of the plan. Employees are immediately vested in the plan.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST

Legal Provisions

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

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

Investment Balances

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

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of the investments and interest and dividend income. Interest is recognized when earned. Securities and securities transactions are recorded in the financial statements on a trade-date basis. The fair value of assets of the TRGT held at June 30, 2021, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

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

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

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

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

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

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

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

At June 30, 2021, STEM assets balance was \$243,632 and had the following investments held by the trust on its behalf:

<u>Investment</u>	Weighted Average Maturity (days)	<u>Maturities</u>	<u>Fair Value</u>
Investments at Fair Value:			
U.S. Equity	N/A	N/A	\$ 75,526
Developed Market International Equity	N/A	N/A	34,108
Emerging Market International Equity	N/A	N/A	9,748
U.S. Fixed Income	N/A	N/A	48,726
Real Estate	N/A	N/A	24,363
Short-term Securities	N/A	N/A	2,435
NAV-Private Equity and Strategic Lending	N/A	N/A	<u>48,726</u>
Total			<u>\$243,632</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

<u>Investment by Fair Value Level</u>	<u>Fair Value June 30, 2021</u>	<u>Fair Value Measurements Using</u>			<u>NAV</u>
		<u>Quoted Price in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	
U.S. Equity	\$75,526	\$75,526	\$ -	\$ -	\$ -
Developed Market					
International Equity	34,108	34,108	-	-	-
Emerging Market					
International Equity	9,748	9,748	-	-	-
U.S. Fixed Income	48,726	-	48,726	-	-
Real Estate	24,363	-	-	24,363	-
Short-term Securities	2,435	-	2,435	-	-
Private Equity and Strategic Lending	48,726	-	-	-	48,726
Total	<u>\$243,632</u>	<u>\$119,382</u>	<u>\$51,161</u>	<u>\$24,363</u>	<u>\$48,726</u>

Risks and Uncertainties

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

Interest Rate Risk

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

Credit Risk

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

J. RESTRICTED ASSETS - TCRS STABILIZATION RESERVE TRUST - Continued

Concentration of Credit Risk

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

Custodial Credit Risk

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

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

K. COMMITMENTS AND CONTINGENCIES

In March 2018, STEM entered into an agreement for the operation and support services of the student transportation system. The vendor is an independent contractor that has agreed to use STEM's facilities and equipment (See Note F). The agreement commenced July 1, 2018 for 7 years ending June 30, 2025 with an option to renew for an additional 5-year period at the end of the initial term. Annual costs throughout the life of the agreement are estimated at \$879,230 per year plus the costs of sales taxes, registration, fuel, maintenance, and insurance. Total expenses for the year ended June 30, 2021 were \$869,269.

L. RISKS AND UNCERTAINTIES

During March 2020, a global pandemic was declared related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions across the nation as federal, state, and local governments react to the public health crisis, creating significant uncertainties in the economy. This situation is rapidly changing, and additional impacts may arise. While the disruptions are currently expected to be temporary, there is uncertainty around its duration. The ultimate future impact, if any, of the pandemic on STEM's results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

M. SUBSEQUENT EVENTS

STEM has evaluated subsequent events through March 28, 2022, the date at which the financial statements were available for issuance, and has determined the following subsequent event requires disclosure:

In December 2021, STEM purchased the high school facilities they occupy for \$2.1 million from the State of Tennessee. Along with the purchase, STEM refinanced existing debt, for a total of \$7.2 million. The loan is payable over a 20-year term.

REQUIRED SUPPLEMENTARY INFORMATION

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

<u>Teachers Legacy Plan of TCRS</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Measurement date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Proportion of the net pension liability (asset)	0.02720%	0.02327%	0.01994%	0.02465%	0.02272%	0.02979%	0.033549%
Proportionate share of the of the net pension liability (asset)	\$ (4,424)	\$ 9,532	\$ 124,632	\$ (8,066)	\$ (79,955)	\$ (306,272)	\$ (255,837)
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 719,896	\$ 871,465	\$ 795,633	\$ 998,827	\$ 1,162,871
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.411%	1.094%	17.313%	-0.926%	-10.049%	-30.663%	-22.000%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%	100.14%	101.49%	104.28%	103.09%
<u>Teachers Retirement Plan of TCRS</u>	<u>2015 (1)</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Measurement date		June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Proportion of the net pension liability (asset)		0.29806%	0.28663%	0.32127%	0.32413%	0.02965%	0.02663%
Proportionate share of the of the net pension liability (asset)		\$ (11,991)	\$ (29,839)	\$ (84,760)	\$ (147,000)	\$ (167,348)	\$ (151,403)
Covered payroll		\$ 619,296	\$ 1,261,173	\$ 2,223,741	\$ 2,832,489	\$ 3,137,187	\$ 3,359,956
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll		-1.94%	-2.37%	-3.81%	-5.19%	-5.33%	-4.51%
Plan fiduciary net position as a percentage of the total pension liability		127.46%	121.88%	126.81%	126.97%	123.07%	116.52%

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

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

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

See independent auditor's report.

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

<u>Metro Plan</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Measurement date	June 30, 2015	June 30, 2016	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Proportion of the net pension liability (asset)	0.07440%	0.08263%	0.10093%	0.09112%	0.11753%	0.10865%	0.11569%
Proportionate share of the of the net pension liability (asset)	\$ 51,297	\$ 182,885	\$ 41,317	\$ 82,468	\$ 144,007	\$ 235,546	\$ (662,010)
Covered payroll	\$ 389,092	\$ 456,441	\$ 604,173	565,203	735,697	692,318	810,138
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	13.184%	40.068%	6.839%	14.591%	19.574%	34.023%	-81.716%
Plan fiduciary net position as a percentage of the total pension liability	97.57%	92.39%	98.64%	97.45%	96.37%	93.79%	115.75%

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

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

See independent auditor's report.

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

<u>Teachers Legacy Pension Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarial Determined Contributions (ADC)	\$ 94,891	\$ 78,745	\$ 64,966	\$ 78,781	\$ 72,243	\$ 104,477	\$ 118,695	\$ 129,546
Contributions in relation to the actuarially determined contribution	<u>94,891</u>	<u>78,745</u>	<u>64,966</u>	<u>78,781</u>	<u>72,243</u>	<u>104,477</u>	<u>118,695</u>	<u>129,546</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,076,178	\$ 871,074	\$ 719,896	\$ 871,465	\$ 795,633	\$ 998,824	\$ 1,162,871	\$ 1,261,402
Contributions as a percentage of covered payroll	8.88%	9.04%	9.04%	9.04%	9.08%	10.46%	10.21%	10.27%
<u>Teachers Retirement Plan of TCRS</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019 *</u>	<u>2020 *</u>	<u>2021 *</u>
Actuarial Determined Contributions (ADC)	N/A	\$ 15,482	\$ 31,570	\$ 84,344	\$ 46,191	\$ 60,861	\$ 68,207	\$ 72,117
Contributions in relation to the actuarially determined contribution		<u>24,771</u>	<u>50,547</u>	<u>84,344</u>	<u>113,300</u>	<u>60,861</u>	<u>68,207</u>	<u>72,117</u>
		573205						
Contribution deficiency (excess)		<u>\$ 4,046,740</u>	<u>\$ (18,977)</u>	<u>\$ -</u>	<u>\$ (67,109)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll		\$ 619,296	\$ 1,263,675	\$ 2,223,741	\$ 2,832,489	\$ 3,137,165	\$ 3,359,956	\$ 3,570,149
Contributions as a percentage of covered payroll		4.00%	4.00%	3.79%	4.00%	1.94%	2.03%	2.02%
<u>Metro Plan</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarial Determined Contributions (ADC)	\$ 41,059	\$ 69,986	\$ 70,794	\$ 74,555	\$ 69,746	\$ 90,785	\$ 85,432	\$ 99,971
Contributions in relation to the actuarially determined contribution	<u>41,059</u>	<u>69,986</u>	<u>70,794</u>	<u>74,555</u>	<u>69,746</u>	<u>90,785</u>	<u>85,432</u>	<u>99,971</u>
		(4,541,200)						
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 239,873	\$ 389,092	\$ 456,441	\$ 604,173	\$ 565,203	\$ 735,697	\$ 692,318	\$ 810,138
Contributions as a percentage of covered payroll	17.117%	17.987%	15.510%	12.340%	12.340%	12.340%	12.340%	12.340%

* In fiscal year 2019, 2020, and 2021, STEM placed the actuarially determined contribution rate (1.94%, 2.03%, and 2.02%, respectively) of covered payroll into the Teacher's Retirement Plan of TCRS and placed 2.06%, 1.97%, and 1.98%, respectively, of covered payroll into the TCRS Stabilization Reserve Trust.

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

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

See independent auditor's report.

OTHER INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2021

<u>Program Name/Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. DEPARTMENT OF TREASURY:			
Passed through Tennessee Department of Education and Metropolitan Nashville Public Schools			
Coronavirus Relief Fund			
LEA Reimbursement Grant	21.019	N/A	\$ 10,000
Technology Connectivity	21.019	N/A	52,781
Remote Learning Technology	21.019	N/A	110,873
CSP Remote Learning Grant	21.019	N/A	69,200
Mayor's CARES Act	21.019	N/A	85,662
Total Coronavirus Relief Fund			<u>328,516</u>
Total Department of Treasury			<u>328,516</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	261,994
Title II Part A Improving Teacher Quality State Grants	84.367	N/A	46,598
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	N/A	<u>128,369</u>
Education Stabilization Fund (ESF)			
Elementary and Secondary Education Emergency Relief Fund	84.425D	N/A	1,546,850
Governor's Emergency Education Relief Fund	84.425C	N/A	<u>150,632</u>
Total Education Stabilization Fund (ESF)			<u>1,697,482</u>
Total U.S. Department of Education			<u>2,134,443</u>
Total Federal Awards			<u>2,462,959</u>
<u>State Financial Assistance</u>			
TENNESSEE DEPARTMENT OF EDUCATION:			
Basic Education Program	N/A	N/A	225,000
Passed through Metropolitan Nashville Public Schools			
Basic Education Program	N/A	N/A	<u>12,712,153</u>
Total State Awards			<u>12,937,153</u>
Total Federal and State Awards			<u>\$ 15,400,112</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.

Note 2: STEM pass through \$-0- to subrecipients for the year ended June 30, 2021

Note 3: STEM elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance

See independent auditor's report.

STEM PREPARATORY ACADEMY
SCHEDULE OF CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE
JUNE 30, 2021

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date	Outstanding 7/1/2020	Issued During Period	Paid and/or Matured During Period	Forgiven During Period	Outstanding 6/30/2021
Governmental Activities:									
<u>NOTES PAYABLE</u>									
Payable through General Purpose School Fund									
Construction Loan through Pathway Lending	\$ 3,858,251	5.25%	09/27/2019	10/01/2024	\$ 3,709,271	\$ -	\$ 228,642	\$ -	\$ 3,480,629
Construction Loan through Pathway Lending	12,514	5.25%	05/05/2021	05/01/2026	-	12,514	-	-	12,514
Note Payable through Pinnacle Bank	400,000	4.25%	06/28/2016	06/28/2021	86,345	-	86,345	-	-
Note Payable through Pinnacle Bank	200,000	4.25%	05/15/2020	05/12/2025	196,996	-	36,881	-	160,115
Paycheck Protection Program	1,386,168	1.00%	04/15/2020	04/14/2022	1,386,168	-	-	1,386,168	-
Total Notes Payable					<u>\$ 5,378,780</u>	<u>\$ 12,514</u>	<u>\$ 351,868</u>	<u>\$ 1,386,168</u>	<u>\$ 3,653,258</u>
<u>LINE-OF-CREDIT</u>									
Payable through General Purpose School Fund									
Line-of-credit through Pinnacle Bank	\$ 325,000	4.00%	06/16/2015	05/13/2022	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>
<u>CAPITAL LEASES</u>									
Payable through General Purpose School Fund									
Bus lease through Wells Fargo	\$ 1,217,350	5.00%	07/10/2018	07/10/2025	\$ 924,727	\$ -	\$ 163,872	\$ -	\$ 760,855
Bus lease through Wells Fargo	283,676	5.00%	04/19/2019	04/10/2026	242,565	-	36,733	-	205,832
					<u>\$ 1,167,292</u>	<u>\$ -</u>	<u>\$ 200,605</u>	<u>\$ -</u>	<u>\$ 966,687</u>

See independent auditor's report.

SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCES BY SCHOOL
STEM PREPARATORY ACADEMY MIDDLE SCHOOL
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,023,332	\$ -	\$ -	\$ 2,023,332
Receivables	128,528	149,691	-	278,219
Due from other funds	149,691	-	-	149,691
Other current assets	50,777	-	-	50,777
Restricted Asset:				
TCRS Stabilization Reserve Trust	124,612	-	-	124,612
Total assets	<u>\$ 2,476,940</u>	<u>\$ 149,691</u>	<u>\$ -</u>	<u>\$ 2,626,631</u>
LIABILITIES				
Accounts payable	\$ 64,683	\$ -	\$ -	\$ 64,683
Accrued expenditures	118,631	-	-	118,631
Due to other funds	-	149,691	-	149,691
Total liabilities	<u>183,314</u>	<u>149,691</u>	<u>-</u>	<u>333,005</u>
FUND BALANCES				
Nonspendable	50,777	-	-	50,777
Restricted	124,612	-	-	124,612
Unassigned	2,118,237	-	-	2,118,237
Total fund balances	<u>2,293,626</u>	<u>-</u>	<u>-</u>	<u>2,293,626</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,476,940</u>	<u>\$ 149,691</u>	<u>\$ -</u>	<u>\$ 2,626,631</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, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,932,542	\$ -	\$ -	\$ 1,932,542
Receivables	123,069	176,690	-	299,759
Due from other funds	176,690	-	-	176,690
Other current assets	37,403	-	-	37,403
Restricted Asset:				
TCRS Stabilization Reserve Trust	119,020	-	-	119,020
Total assets	<u>\$ 2,388,724</u>	<u>\$ 176,690</u>	<u>\$ -</u>	<u>\$ 2,565,414</u>
LIABILITIES				
Accounts payable	\$ 51,897	\$ -	\$ -	\$ 51,897
Accrued expenditures	113,307	-	-	113,307
Due to other funds	-	176,690	-	176,690
Total liabilities	<u>165,204</u>	<u>176,690</u>	<u>-</u>	<u>341,894</u>
FUND BALANCES				
Nonspendable	37,403	-	-	37,403
Restricted	119,020	-	-	119,020
Unassigned	2,067,097	-	-	2,067,097
Total fund balances	<u>2,223,520</u>	<u>-</u>	<u>-</u>	<u>2,223,520</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,388,724</u>	<u>\$ 176,690</u>	<u>\$ -</u>	<u>\$ 2,565,414</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, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 87,047	\$ -	\$ -	\$ 87,047
District funding	6,501,833	-	-	6,501,833
Federal and state grants	-	686,132	-	686,132
Other income	18,711	-	-	18,711
Total revenues	<u>6,607,591</u>	<u>686,132</u>	<u>-</u>	<u>7,293,723</u>
EXPENDITURES				
Current:				
Instructional	120,841	-	-	120,841
Occupancy	400,744	-	-	400,744
Office	103,103	-	-	103,103
Organizational development	24,049	-	-	24,049
Other	14,743	-	-	14,743
Professional services and fees	479,791	-	-	479,791
Employee compensation	3,392,201	562,532	-	3,954,733
Staff development	43,986	-	-	43,986
Transportation	434,913	-	-	434,913
Debt Service				
Principal	150,302	-	-	150,302
Interest	118,239	-	-	118,239
Capital outlay	175,401	123,600	-	299,001
Total expenditures	<u>5,458,313</u>	<u>686,132</u>	<u>-</u>	<u>6,144,445</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(54,996)	-	-	(54,996)
Issuance of debt	-	-	-	-
Total other financing sources	<u>(54,996)</u>	<u>-</u>	<u>-</u>	<u>(54,996)</u>
NET CHANGE IN FUND BALANCES	1,094,282	-	-	1,094,282
FUND BALANCES, June 30, 2020	<u>1,199,344</u>	<u>-</u>	<u>-</u>	<u>1,199,344</u>
FUND BALANCES, June 30, 2021	<u>\$ 2,293,626</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,293,626</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, 2021

	General Purpose School Fund	Federal and State Grants Fund	Restricted Contribution Fund	Total Governmental Funds
REVENUES				
Contributions	\$ 87,047	\$ -	\$ -	\$ 87,047
District funding	6,210,320	-	-	6,210,320
Federal and state grants	-	560,553	-	560,553
Other income	18,712	-	-	18,712
Total revenues	<u>6,316,079</u>	<u>560,553</u>	<u>-</u>	<u>6,876,632</u>
EXPENDITURES				
Current:				
Instructional	105,089	-	-	105,089
Occupancy	486,485	-	-	486,485
Office	104,000	-	-	104,000
Organizational development	23,541	-	-	23,541
Other	57,460	-	-	57,460
Professional services and fees	466,586	-	-	466,586
Employee compensation	2,913,832	459,153	-	3,372,985
Staff development	61,476	-	-	61,476
Transportation	434,914	-	-	434,914
Debt Service				
Principal	502,171	-	-	502,171
Interest	137,483	-	-	137,483
Capital outlay	12,974	101,400	-	114,374
Total expenditures	<u>5,306,011</u>	<u>560,553</u>	<u>-</u>	<u>5,866,564</u>
OTHER FINANCING SOURCES:				
Transfers in	54,996	-	-	54,996
Issuance of debt	12,514	-	-	12,514
Total other financing sources	<u>67,510</u>	<u>-</u>	<u>-</u>	<u>67,510</u>
NET CHANGE IN FUND BALANCES	1,077,578	-	-	1,077,578
FUND BALANCES, June 30, 2019	<u>1,145,942</u>	<u>-</u>	<u>-</u>	<u>1,145,942</u>
FUND BALANCES, June 30, 2020	<u>\$ 2,223,520</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,223,520</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, 2021

As of June 30, 2021, STEM Preparatory Academy operates the following charter schools in Nashville, Tennessee (collectively, the “Schools”):

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

Allocations

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

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

Cash and Cash Equivalents

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

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

See independent auditor’s report.



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

To the Board of Directors
STEM Preparatory Academy
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of STEM Preparatory Academy, operating Tennessee Public Charter Schools STEM Preparatory Academy Middle School and STEM Preparatory Academy High School, ("STEM") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise STEM's basic financial statements and have issued our report thereon dated March 28, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered STEM's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STEM's internal control. Accordingly, we do not express an opinion on the effectiveness of STEM's internal control.

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Nashville, Tennessee
March 28, 2022



Independent Auditor's Report on Compliance for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

To the Board of Directors
STEM Preparatory Academy
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited STEM Preparatory Academy's ("STEM") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of STEM's major federal programs for the year ended June 30, 2021. STEM's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of STEM's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about STEM's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



Opinion on Each Major Federal Program

In our opinion, STEM, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance

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

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

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

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

Nashville, Tennessee
March 28, 2022

STEM PREPARATORY ACADEMY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major program:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
21.019	Coronavirus Relief Fund
84.425	Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

STEM PREPARATORY ACADEMY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2021

STEM had no audit findings for the year ended June 30, 2020.