

STEM PREPARATORY ACADEMY
AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION
JUNE 30, 2014

STEM PREPARATORY ACADEMY

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Independent Auditor's Report

To the Board of Directors
STEM Preparatory Academy
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of STEM Preparatory Academy (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School'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, 2014, 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 4 - 12 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 accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual for Local Governmental Units and Other Organizations* and are not a required part of the basic financial statements.

The schedules of expenditures of federal awards and state financial assistance is 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.



To the Board of Directors
STEM Preparatory Academy

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2014, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Crosslin + Associates, P.C.

Nashville, Tennessee
December 26, 2014

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

Our discussion and analysis of STEM Preparatory Academy's annual financial performance provides an overview of the School's financial activities for the fiscal year ended June 30, 2014. This section should be read in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The School's governmental activities total assets increased by \$993,121 in 2014 or 186.1%, while total revenues for the School increased by \$796,273 or 34.9%. The School's governmental activities total program costs for 2014 increased \$753,131 or 48.2%. Overall, the School's 2014 change in net position, \$(73,562), was \$(313,150) or 130% less than the prior year. The increase in total costs over the prior year was directly related to the expansion of the School's instructional staffing model, which included an additional teacher per grade level to serve high-needs students.

For the General Purpose School Fund there was a net change in fund balance of \$(238,037). The General Purpose School Fund - fund balance at fiscal year-end was \$120,159. The net change in fund balance is attributable to costs associated with securing and renovating the School's permanent facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REPORTING THE SCHOOL AS A WHOLE

In general, users of these financial statements want to know if the School is in a better or worse financial position as a result of the year's activities. The Statement of Net Position and Statement of Activities report information about the School as a whole and about the School's activities in a manner that helps to answer that question. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 13.

The Statement of Net Position reports the School's net position (total assets less total liabilities and, when applicable, deferred outflows and inflows of resources). Private sector entities would report retained earnings. The School'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 the School's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the School.

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

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 15. They provide detailed information about the School's most significant funds, not the School as a whole. Funds are established by the School as required to help manage money for particular purposes and compliance with various donor and grant provisions.

The School's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the school-wide financial statements to report on the School as a whole. The relationship between governmental activities, as reported in the Statement of Net Position and the Statement of Activities, and governmental funds, as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances is reconciled in the basic financial statements on pages 16 and 18.

SCHOOL-WIDE FINANCIAL ANALYSIS

The School's assets exceeded the School's liabilities at the close of the fiscal year, resulting in net position of \$411,604. The School's net position includes \$383,431 of cash and cash equivalents. All cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2014, the School had invested a total of \$1,051,018 in capital assets. This investment includes instructional and support furniture, instructional computers for teachers, mobile student computer labs, maintenance equipment and leasehold improvements to the buildings. The School expects additional property and equipment investments in the 2014-2015 school year, as student enrollment increases with the addition of another grade level. With the additional students, there will be continued requirements for furniture, computers and equipment.

The School rented educational space from a private party in 2012-2013. The lease term ended August 1, 2013. Management secured a long-term lease with the Metropolitan Government of Nashville and Davidson County ("Metro"), which includes considerations for capital improvements. The School secured a construction loan to fund the improvements. As of June 30, 2014, the School has an outstanding principal balance of \$744,504 on their construction loans. The lease term with Metro is for 10 years ending July 2023 with two 5-year extensions. Additional information on the lease, construction loan, and property and equipment are located in the notes to the financial statements.

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

A schedule of the School's net position as of June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Current assets	\$ 475,784	\$406,711
Capital assets	<u>1,051,018</u>	<u>126,970</u>
Total assets	<u>1,526,802</u>	<u>533,681</u>
Current liabilities	339,695	48,515
Noncurrent liabilities	<u>644,834</u>	<u>-</u>
Total liabilities	<u>984,529</u>	<u>48,515</u>
Deferred inflows of resources	<u>130,669</u>	<u>-</u>
Net position:		
Net investment in capital assets	306,514	126,970
Unrestricted	<u>105,090</u>	<u>358,196</u>
Total net position	<u>\$ 411,604</u>	<u>\$485,166</u>

The School had deferred outflows of \$115,600 related to a private grant intended for the 2014-2015 school year and \$15,069 for future rent at June 30, 2014. The School had no deferred outflows or inflows of resources at June 30, 2013. The School's total net position decreased \$73,562 during the 2014 fiscal year. The decrease in the School's net position indicates that the School had more outgoing expenses than incoming revenues during the year and was the result of the School taking on debt in order to expand the School's facilities and add additional instructional resources.

Total revenues generated from government grants, governmental funds, and donations were \$3,065,175 during the 2014 fiscal year which is \$793,628 or 34.9% increase over 2013. Contributions from individuals and organizations were \$26,935 higher than 2013. At this time, the School is focusing on government grants and funding as their primary means of revenue. The School has continued building relationships with donors to bolster contribution income. The School realized an overall increase in federal funding as compared to 2013 as a result of an overall increase in the USDA School Lunch, Title I, and IDEA programs due to increased enrollment, offset by a scheduled end to the planning grant obtained in the planning phase of the School. Finally, District funding was awarded in 2014 for the School's third academic year. The main driver of this award is student enrollment, which increased due to the addition of a 7th grade class. The School focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to start their third academic year with an enrollment of 300.

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

Total expenses were \$3,153,354 during the 2014 fiscal year, which was \$1,109,783 higher than 2013. The majority of this increase is directly related to hiring of additional teachers, instructional expenses related to the addition of a 7th grade class, and occupancy and expansion costs related to the transition to the School's new permanent facility.

A schedule of the School's revenue and expenses for the years ended June 30, 2014 and 2013, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	<u>2014</u>	<u>2013</u>
Revenues		
Contributions	\$ 44,851	\$ 17,916
District funding	2,633,385	1,874,617
Federal and state grants	386,939	379,014
Other	<u>14,617</u>	<u>11,972</u>
Total revenues	<u>3,079,792</u>	<u>2,283,519</u>
Expenses		
Instructional	108,841	45,608
Food Services	185,166	143,865
Occupancy	165,625	200,719
Office	123,222	67,466
Organizational development	116,420	39,231
Other	39,403	2,074
Service fees	137,538	73,803
Employee compensation	1,854,038	1,238,318
Staff development	35,366	26,796
Transportation	267,065	171,222
Interest	23,407	-
Depreciation	<u>97,263</u>	<u>34,469</u>
Total expenses	<u>3,153,354</u>	<u>2,043,571</u>
Change in net position	<u>\$ (73,562)</u>	<u>\$ 239,948</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The School's funds, as presented on the Balance Sheet on page 15, report a combined fund balance of \$120,159. All of the School's total funds are in the General Purpose School Fund, which is the chief operating fund of the School. The School has one other major fund consisting of the Federal and State Grants Fund.

Due to the different basis of accounting, there is a difference between the amounts reported under the School's funds and the amounts reported as school-wide. For the year-ended June 30, 2014, the differences consist of capital assets and long-term debt, which are not reported in the School's funds.

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

SCHOOL MISSION AND MODEL

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

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

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

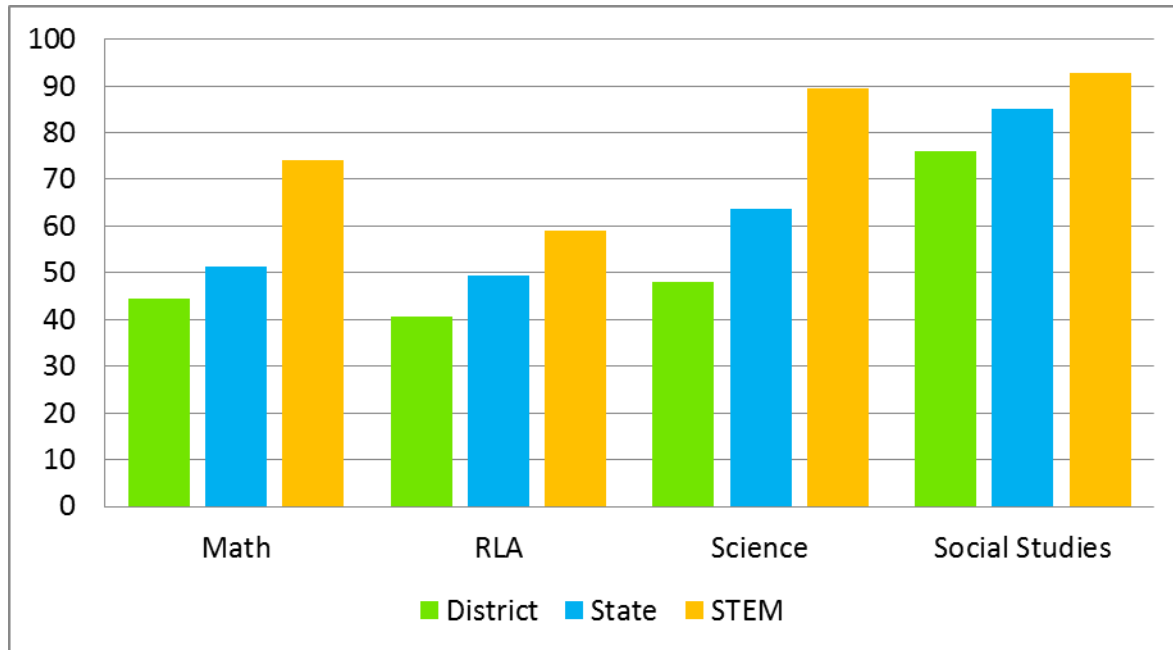
RESULTS

In its third year of operation, STEM *outperformed* their matched peer schools both locally and statewide in *all* subject areas. In addition, the Tennessee Department of Education designated STEM as “**Reward School**” for its performance in the 2013-2014 school year, the second straight year the School has received that distinction. Reward schools represent the top five percent of all schools in the state. In addition, the school received the designation as an Metropolitan Nashville Public Schools “**Excelling School**” for achieving significant gains for students. STEM has received this designation since the inception of the district’s Academic Performance Framework in 2012.

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

The data overview below highlights STEM’s results on the 2014 Tennessee Comprehensive Assessment Program (TCAP) relative to the state and district performance.

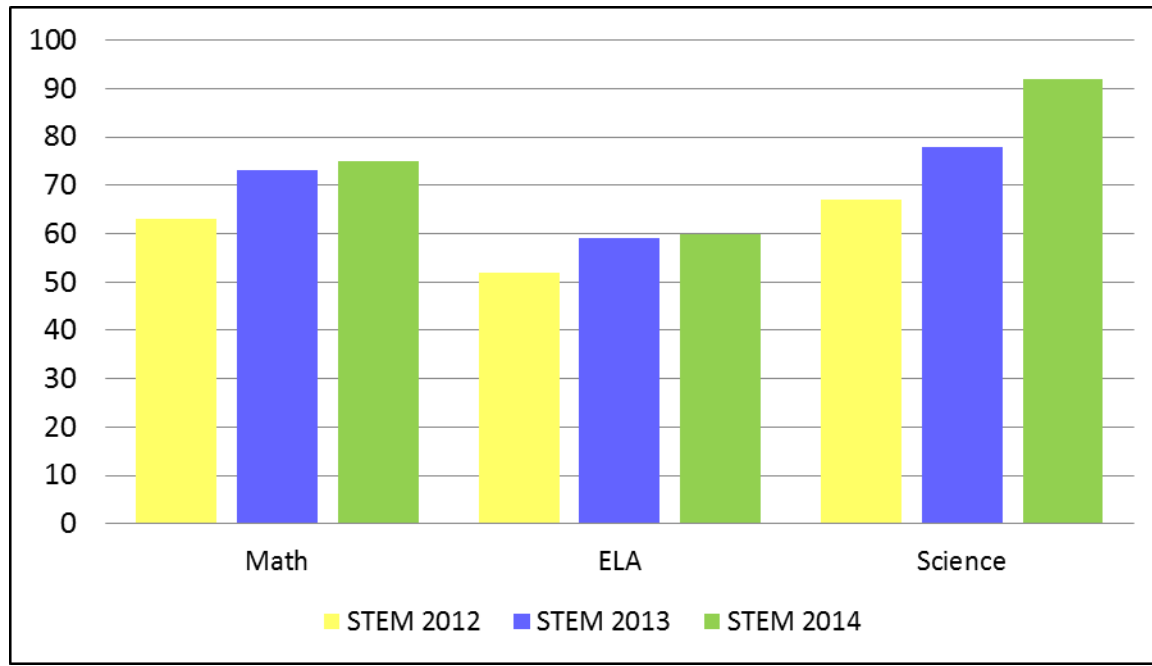
Table 1. 2014 TCAP Performance Comparison - District and State.



In addition to posting achievement above local and state averages, STEM outperformed its previous years’ results, achieving significant gains in student proficiency in science in particular. As the organization grows and expands, continuous refinement of the model and improvement year over year remains the goal.

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

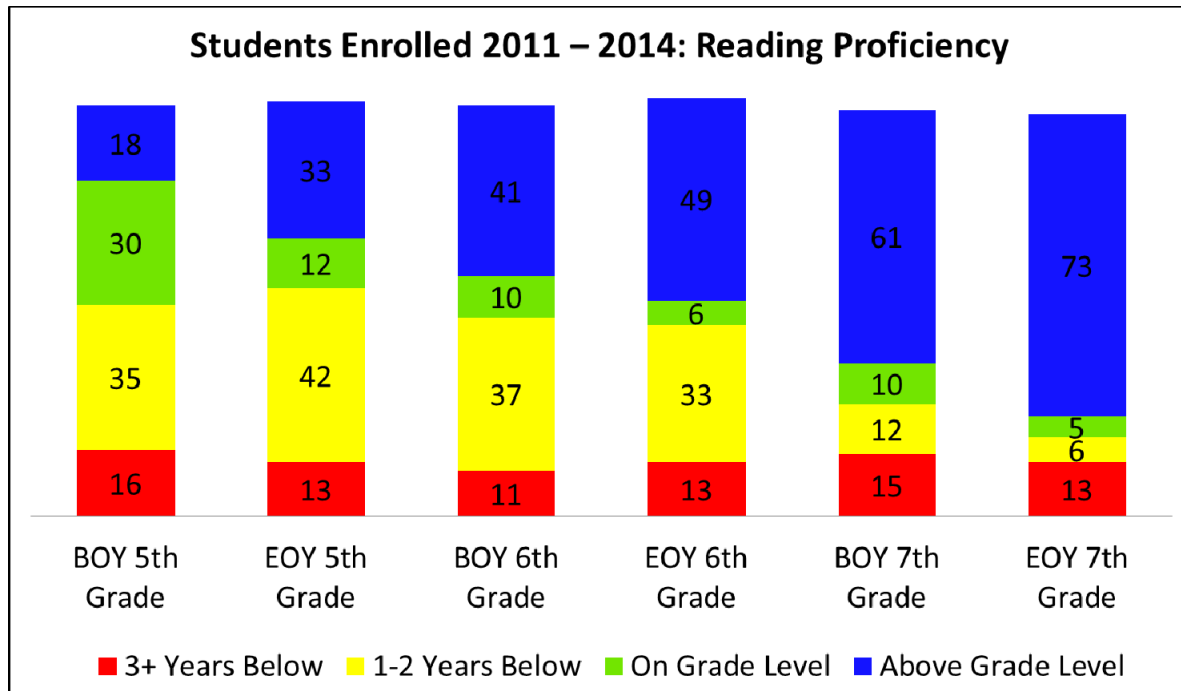
Graph 2: 2014 TCAP Performance Internal Comparison.



Moreover, the school has continually increased the number of students performing at or above grade level, as measured by the national norm-referenced exams, Measures of Academic Progress (MAP). For instance, 73 percent of students who have been continuously enrolled in STEM Prep since the 5th grade scored above grade level in Reading in 2014.

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

Graph 3. Reading Growth Over Time on MAP Assessment



Resulting from STEM's strong academic performance in 2013-2014 and the years prior, the organization leadership has been called upon to provide professional development and training activities for leaders and teachers throughout the Middle Tennessee region and has served as host to delegations of educators from cities around the country.

ORGANIZATIONAL EFFICIENCY

Additionally, during the 2014 fiscal year, STEM developed an integrated analytical framework to assess the School's financial and operational performance relative to district peer schools on several high-level but critically important metrics. The results from 2013 suggest that STEM performed well relative to peer schools in the second full year of middle school operations and that the School has laid an excellent foundation to support future growth. *Most notably, STEM appears to be achieving academic growth, as measured by NCE gains, with a high degree of efficiency and at a far lower cost than most peer schools.* Though district school-level financial information is not available at the time of this report, STEM anticipates similar results for 2014.

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

Table 4. Integrated Analytical Framework

	Capacity Utilization		Financial		Return on Investment
	<i>Load factor</i>	<i>SF per student</i>	<i>Net margin</i>	<i>ADM index</i>	<i>Cost per NCE gain</i>
	2013	2013	2013	2013	2013
STEM Prep	1.19	84	10.5%	1.13	\$482
MNPS (all middle schools)	0.54	187	3.4%	1.05	\$18,847
Middle school 1	0.51	196	-7.2%	0.91	\$947
Middle school 2	0.42	236	-27.2%	0.72	\$18,196
Middle school 3	0.73	137	22.7%	1.38	\$522
Middle school 4	0.80	126	22.2%	1.37	\$9,267
Middle school 5	0.65	154	4.8%	1.07	NEGATIVE

STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET

Fiscal Year 2015 enrollment is projected to be over 400 students. The school anticipates an increase in total Basic Education Program (BEP) funding, as a result of increased enrollment across all grades and the addition of an 8th grade class. Additionally, the school expects per pupil BEP funding to remain flat or decline for the 2014-15 school year.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our students' parents, Davidson County taxpayers, donors, creditors, authorities over grant funding and agencies tasked with oversight of Metropolitan Nashville Public Schools with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. For questions about this report or additional financial information, contact the School's Executive Director, Kristin McGraner, at 1162 Foster Ave, Nashville, TN 37210, by telephone at (615) 921-2200 or email kmcgraner@stemprepacademy.org.

STEM PREPARATORY ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 383,431
Accounts receivable	30,009
Other current assets	62,344
Capital assets, net	<u>1,051,018</u>
Total assets	<u>1,526,802</u>
LIABILITIES	
Accounts payable	144,581
Accrued expenses	95,444
Long-term debt due within one year	99,670
Long-term debt due in more than one year	<u>644,834</u>
Total liabilities	984,529
DEFERRED INFLOWS OF RESOURCES	
Operating grants	115,600
Deferred rent	<u>15,069</u>
Total deferred inflows of resources	<u>130,669</u>
NET POSITION	
Net investment in capital assets	306,514
Unrestricted	<u>105,090</u>
Total net position	<u><u>\$ 411,604</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

		Functions		
		Student Instruction and Services	Administration	Fundraising
<u>GOVERNMENTAL ACTIVITIES:</u>	<u>Total</u>			
EXPENSES				
Instructional	\$ 108,841	\$ 108,841	\$ -	\$ -
Food services	185,166	185,166	-	-
Occupancy	165,625	132,500	33,125	-
Office	123,222	-	123,222	-
Organizational development	116,420	-	116,420	-
Other	39,403	3,440	35,963	-
Professional services and fees	137,538	-	137,538	-
Employee compensation	1,854,038	1,514,617	339,421	-
Staff development	35,366	24,897	10,469	-
Transportation	267,065	267,065	-	-
Interest	23,407	-	23,407	-
Depreciation	<u>97,263</u>	<u>77,810</u>	<u>19,453</u>	-
Total expenses	3,153,354	2,314,336	839,018	-
PROGRAM REVENUES				
Operating grants and contributions	334,510	334,510	-	-
Capital grants and contributions	<u>52,429</u>	<u>52,429</u>	-	-
Net program expenses	<u>\$ 2,766,415</u>	<u>\$ 1,927,397</u>	<u>\$ 839,018</u>	<u>\$ -</u>
GENERAL REVENUES				
Contributions	44,851			
District funding	2,633,385			
Other	<u>14,617</u>			
Total general revenues	<u>2,692,853</u>			
CHANGE IN NET POSITION	(73,562)			
NET POSITION, June 30, 2013	<u>485,166</u>			
NET POSITION, June 30, 2014	\$ 411,604			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 383,431	\$ -	\$ 383,431
Accounts receivable	19,519	10,490	30,009
Due from other funds	10,490	-	10,490
Other current assets	<u>62,344</u>	<u>-</u>	<u>62,344</u>
Total assets	<u>\$ 475,784</u>	<u>\$ 10,490</u>	<u>\$ 486,274</u>
LIABILITIES			
Accounts payable	\$ 144,581	\$ -	\$ 144,581
Accrued expenditures	95,444	-	95,444
Due to other funds	<u>-</u>	<u>10,490</u>	<u>10,490</u>
Total liabilities	240,025	10,490	250,515
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - operating grants	<u>115,600</u>	<u>-</u>	<u>115,600</u>
Total deferred inflows of resources	<u>115,600</u>	<u>-</u>	<u>115,600</u>
FUND BALANCES			
Nonspendable	62,344	-	62,344
Unassigned	<u>57,815</u>	<u>-</u>	<u>57,815</u>
Total fund balances	<u>120,159</u>	<u>-</u>	<u>120,159</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 475,784</u>	<u>\$ 10,490</u>	<u>\$ 486,274</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS - CONTINUED
JUNE 30, 2014

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	\$ 120,159
Capital assets not reported above	1,051,018
Some liabilities may not be due and payable in the current period, and therefore, are not reported in the funds:	
Long-term debt	(744,504)
Deferred inflows of resources related to deferred rent	<u>(15,069)</u>
	<u><u>\$ 411,604</u></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, 2014

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 44,851	\$ -	\$ 44,851
District funding	2,633,385	-	2,633,385
Federal and state grants	-	386,939	386,939
Other income	14,617	-	14,617
Total revenues	<u>2,692,853</u>	<u>386,939</u>	<u>3,079,792</u>
EXPENDITURES			
Current:			
Instructional	108,841	-	108,841
Food Services	41,900	143,266	185,166
Occupancy	150,556	-	150,556
Office	123,222	-	123,222
Organizational development	116,420	-	116,420
Other	39,403	-	39,403
Professional services and fees	137,538	-	137,538
Employee compensation	1,662,794	191,244	1,854,038
Staff development	35,366	-	35,366
Transportation	267,065	-	267,065
Debt service:			
Principal	54,551	-	54,551
Interest	23,407	-	23,407
Capital outlay	968,882	52,429	1,021,311
Total expenditures	<u>3,729,945</u>	<u>386,939</u>	<u>4,116,884</u>
OTHER FINANCING SOURCES:			
Issuance of debt	<u>799,055</u>	-	<u>799,055</u>
NET CHANGE IN FUND BALANCES	(238,037)	-	(238,037)
FUND BALANCES, June 30, 2013	<u>358,196</u>	-	<u>358,196</u>
FUND BALANCES, June 30, 2014	<u>\$ 120,159</u>	<u>\$ -</u>	<u>\$ 120,159</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, 2014

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	\$ (238,037)
Issuance of debt recorded as revenue in the governmental fund statements, but reflected as long-term debt in the school-wide statements.	(799,055)
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	1,021,311
Principal payments on long-term debt	54,551
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	(97,263)
Occupancy expense increase associated with deferred rent	<u>(15,069)</u>
Change in net assets of governmental activities	<u>\$ (73,562)</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

STEM Preparatory Academy (the “School”) 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), the School has been approved as a public charter school. Pursuant to the Act, public charter schools are part of the state’s public education program offering an alternative means within the public school system for accomplishing necessary outcomes of education. The School entered into a Charter School Agreement with the Metropolitan Board of Public Education of Nashville and Davidson County (the “Board of Education”) on November 23, 2010, to operate a charter school in Nashville, Tennessee. The School began classes in July 2011 with a fifth grade class and will add an additional grade each year culminating with the addition of an eighth grade in the 2014-2015 fiscal year.

In June 2014, the Board of Education approved the School’s application to open a new charter high school. The high school plans to open in the Fall of 2015.

Basic Financial Statements

School-wide financial statements

The school-wide financial statements focus on the sustainability of the School as an entity and the change in the School’s net position resulting from the current year’s activities. In the school-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 the School at year-end.

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund financial statements

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

The emphasis in fund financial statements is on the major funds. The School has no nonmajor funds for the year ended June 30, 2014. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The School reports the following major governmental funds:

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

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

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

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Committed - This classification consists of fund balances that can only be used for specific purposes established by formal action of the School's Board of Directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts.

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

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

Basis of Accounting

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

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

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

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

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

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

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

Receivables

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

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. The School's deferred inflows of resources includes a private grant of \$115,600 intended for the 2015 year, and \$15,069 in deferred rent (see Note F).

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

Estimates and Uncertainties

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the useful lives of property and equipment.

Grants

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

Fair Value of Financial Instruments

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Interfund Balances

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

Interfund balance of \$10,490 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

The School 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 School carries insurance for certain risks of loss. Since inception, settled claims resulting from these risks have not exceeded commercial insurance coverage.

The School 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 the School's financial position or results of operations, as of the date of these financial statements.

B. DEPOSITS WITH FINANCIAL INSTITUTION

The School, from time to time, maintains deposits in excess of FDIC coverage. The School's financial institution is a member of the Tennessee Bank Collateral Pool, which helps the School to mitigate custodial risk.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

C. CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions/</u> <u>Transfers in</u>	<u>Retirements/</u> <u>Transfers out</u>	<u>Balance</u> <u>June 30, 2014</u>
<i>Nondepreciable</i>				
Construction in progress	\$ -	\$ 173,715	\$ -	\$ 173,715
<i>Depreciable</i>				
Office equipment	39,474	43,834	(17,969)	65,339
Furniture and fixtures	11,526	89,271	(4,875)	95,922
Computer equipment	80,896	68,113	(10,491)	138,518
Leasehold improvements	<u>51,688</u>	<u>682,506</u>	<u>(38,842)</u>	<u>695,352</u>
Total depreciable				
capital assets	183,584	883,724	(72,177)	995,131
Accumulated depreciation	<u>(56,614)</u>	<u>(97,263)</u>	<u>36,049</u>	<u>(117,828)</u>
Capital assets, net	<u>\$ 126,970</u>	<u>\$ 960,176</u>	<u>\$(36,128)</u>	<u>\$ 1,051,018</u>

Construction in progress included leasehold improvements to expand the School to accommodate another grade. Estimated costs to complete construction are \$30,000 at June 30, 2014.

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$77,810
Administration	<u>19,453</u>
	<u>\$97,263</u>

D. LINE-OF-CREDIT

The School had a \$150,000 line-of-credit with a bank, which expired July 15, 2014. The line-of-credit was extended to July 2015, subsequent to year-end. As of June 30, 2014, there were no outstanding amounts under the line.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

E. LONG-TERM DEBT

In July 2013, the School entered into a \$629,641 line of credit agreement to fund the leasehold improvements of the School's facilities. The loan is collateralized by a life insurance policy and substantially all the assets of the School. The loan accrues interest at a fixed rate of 4.75%. Principal and interest are due in monthly installments of \$8,850 through October 2020. The outstanding principal balance at June 30, 2014 totaled \$575,090.

In April 2014, the School entered into a \$225,000 line of credit agreement to fund additional leasehold improvements to the School's facilities. The loan accrues interest at a fixed rate of 4.75%. Interest only payments were due monthly through November 1, 2014. Beginning December 1, 2014, principal and interest are due in monthly installments of \$3,359 through May 2021. The outstanding principal balance at June 30, 2014 totaled \$169,414.

The following is a summary of changes in the School's long-term debt for governmental activities for the fiscal year ended June 30, 2014:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Contribution/</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2014</u>
Note payable - bank	\$ -	\$629,641	\$54,551	\$575,090
Note payable - bank	<u>-</u>	<u>169,414</u>	<u>-</u>	<u>169,414</u>
Total	<u>\$ -</u>	<u>\$799,055</u>	<u>\$54,551</u>	<u>\$744,504</u>

A summary of annual principal and interest requirements follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>
2015	\$ 32,728	\$ 99,670
2016	28,073	118,438
2017	22,323	124,187
2018	16,294	130,216
2019	9,973	136,538
2020-2021	<u>4,270</u>	<u>135,455</u>
	<u>\$113,661</u>	<u>\$744,504</u>

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

F. LEASING EXPENSES

The facilities used to provide educational services were provided under a two-year lease arrangement from a private party that expired August 1, 2013. The arrangement required the School to pay rent in monthly installments of \$7,668. The School verbally agreed to extend their lease through mid-August as they prepared their new space to open the 2013-2014 academic year.

In May 2013, the School entered into a lease agreement with the Metropolitan Government of Nashville and Davidson County ("Metro") to occupy educational space in South Nashville. The lease term is for 10 years commencing from August 1, 2013 with the option to extend two 5-year terms each. The lease requires the School to pay rent in monthly installments of \$6,500 through July 2014, increasing 2% per year thereafter. The agreement also entitles the School to credit against the payment of rent certain tenant improvements approved Metro totaling \$674,083. Tenant improvements were primarily funded by a construction loan (See Note E). The School recorded rent expense related to the lease based on a straight-line calculation which totaled \$30,524 for the fiscal year and is included in occupancy expense. Deferred rent related to the straight-line rent is \$15,069 at June 30, 2014, and presented with deferred inflows of resources.

The leases require monthly rental payments through August 1, 2023, as follows:

Year Ending June 30,

2015	\$ 79,430
2016	81,019
2017	82,639
2018	84,293
2019	85,978
2020 - 2024	<u>369,222</u>
	<u>\$782,581</u>

G. FUND BALANCES

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

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

H. CONCENTRATIONS

The School received 86% 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, 2014, was \$2,633,385. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

I. RETIREMENT PLANS

Certificated Employees Plan Description

The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEP), a cost-sharing, multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan participants and their beneficiaries. Benefits are determined by a formula using the participant’s high five-year average salary and years of service. Participants become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested participants who are at least 55 years of age or have 25 years of service. Disability benefits are available to active participants with five years of service and who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the participant was in the performance of duty. Participants joining the plan on or after July 1, 1979, are vested after five years of service.

Participants joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statutes found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if CPI increases less than one-half percent. The annual COLA is capped at three percent.

TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

I. RETIREMENT PLANS - Continued

Funding Policy

Participants are required to contribute 5.00% of their salary to the plan. The employer contribution rate is based on the rate for Davidson County Schools, which is established at an actuarially determined rate. The employer rate for the year ended June 30, 2014, was 8.88% of annual covered payroll.

Non-Certificated Employees Plan Description

The School contributes to the Metropolitan Government of Nashville and Davidson County's Division B Pension Plan (Metro Plan), a defined benefit single-employer pension plan managed and administered by the Metropolitan Employee Benefit Board, an independent board created by the Metropolitan Charter. Benefits are determined by a formula using the participant's high five-year average salary and years of service. Participants become eligible to retire at the age of 60 once their age plus the completed years of service equal 85 or at age 65 with five years of service. A reduced retirement benefit is available to vested participants prior to the age of 60 or with less than an age plus years of

service sum of 85. Reduced benefits are determined by reducing full benefits by 4% per year for each of the first five years by which the retirement date precedes the normal retirement age, and by 8% for each additional year beyond the first five years with a maximum reduction of 60%. Vesting occurs after 5 years for employees employed on or between October 1, 2001 and December 31, 2012, and after 10 years for employees employed on or after January 1, 2013. No separate financial reports are issued for the Metro Plan. The Metro Plan financial and required supplementary information is included in The Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report. That report may be obtained by writing to the Tennessee Department of Finance, Division of Accounts, 1 Public Square, Suite 106, Nashville, TN 37201 or can be accessed at www.nashville.org/finance/financial_reports.asp.

Funding Policy

The Metro Plan requires no participant contribution. The employer contribution is established at an actuarially determined rate. The employer rate for the year ended June 30, 2014, was 17.117% of annual covered payroll.

The School's contributions for both teachers and non-teachers are not refundable to either the School or employee. The School's expense, related to both plans for the years ended June 30, 2014, 2013, and 2012, totaled \$135,950, \$83,376, and \$38,630, respectively.

STEM PREPARATORY ACADEMY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

J. COMMITMENTS AND CONTINGENCIES

In July 2011, the School entered into an agreement with a transportation company to operate bus routes to and from the School campus, including providing drivers, buses, maintenance of equipment, and route services. Fees under the agreement call for a base contract rate of \$256 per route plus \$0.20 per mile up to a maximum of 120 miles per route. For each of the second through fifth year of the contract, the base rate increases 3% over the previous year's base rate. The five year contract expires on June 30, 2016, with the option to renew for an unlimited one year period each year. Transportation expense relating to bus routes for June 30, 2014, were \$256,922.

K. SUBSEQUENT EVENTS

In October 2014, the School was awarded a planning grant for \$125,000 through the Department of Education to aid in the planning phase of the approved high school (see Note A). The grant expires July 31, 2015.

The School also renewed their line of credit through July 2015 as discussed in Note D.

OTHER INFORMATION

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Balance July 1, 2013 (Receivable) Payable</u>
U.S. DEPARTMENT OF AGRICULTURE:			
Passed through Tennessee Department of Education:			
National School Lunch Program	10.555	N/A	\$ -
U.S. DEPARTMENT OF EDUCATION:			
Passed through Tennessee 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	-
Special Education Cluster (IDEA) Special Education - Grants To States	84.027	N/A	<u>-</u>
			<u>\$ -</u>

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

<u>Receipts</u>	<u>Expenditures</u>	Balance June 30, 2014 (Receivable) <u>Payable</u>
\$132,776	\$143,266	\$(10,490)
141,517	141,517	-
<u>49,727</u>	<u>49,727</u>	<u>-</u>
<u>\$324,020</u>	<u>\$334,510</u>	<u>\$(10,490)</u>

See independent auditor's report.

STEM PREPARATORY ACADEMY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2014

<u>Grantor</u>	<u>State Contract Number</u>	<u>Balance July 1, 2013</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2014</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 52,429	\$ 52,429	\$ -
Passed through Metropolitan Nashville Public Schools					
Basic Education Program	N/A	<u>-</u>	<u>2,633,385</u>	<u>2,633,385</u>	<u>-</u>
		<u>\$ -</u>	<u>\$2,685,814</u>	<u>\$2,685,814</u>	<u>\$ -</u>

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

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 (the "School") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 26, 2014.

Internal Control Over Financial Reporting

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

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

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



To the Board of Directors
STEM Preparatory Academy

Compliance and Other Matters

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

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

Croselin + Associates, P.C.

Nashville, Tennessee
December 26, 2014