

**STEM PREPARATORY ACADEMY**  
**AUDITED FINANCIAL STATEMENTS**  
**AND OTHER INFORMATION**  
**JUNE 30, 2013**

# 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, 2013, 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, 2013, 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 - 10 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 October 30, 2013, 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  
October 30, 2013

**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, 2013. 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 \$235,624 in 2013 or 79.1%, while total revenues for the School increased by \$924,087 or 68.0%. The School's governmental activities total program costs for 2013 increased \$718,387 or 85.2%. Overall, the School's 2013 change in net position, \$239,948, was \$49,300 or 25.9% more than the prior year.

For the General Purpose School Fund there was a net change in fund balance of \$208,459. The General Purpose School Fund - fund balance at fiscal year-end was \$358,196.

**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 11.

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.

The School's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances, begin on page 13. 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.

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

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 14 and 16.

### **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 \$485,166. The School's net position include \$377,908 of cash and cash equivalents. All cash is available to meet the School's ongoing operating activities and growth strategy.

As of June 30, 2013, the School had invested a total of \$126,970 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 2013-2014 school year, as student enrollment increases with the addition of another grade level and the move to a larger facility. With the additional students, there will be continued requirements for furniture, computers and equipment. To accommodate all grades, the School has secured an alternate location and is securing financing in order to complete capital improvements required to house all grades at its full capacity.

The School rented educational space from a private party in 2012-2013. The current 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 subsequently secured a construction loan to fund the improvements. The lease term 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.

The School has no debt as of the end of the fiscal year.

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

A schedule of the School's net position as of June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Current assets	\$406,711	\$202,576
Capital assets	<u>126,970</u>	<u>95,481</u>
Total assets	<u>533,681</u>	<u>298,057</u>
Current liabilities	<u>48,515</u>	<u>52,839</u>
Net position:		
Net investment in capital assets	126,970	95,481
Restricted - nonexpendable	15,498	5,714
Unrestricted	<u>342,698</u>	<u>144,023</u>
Total net position	<u>\$485,166</u>	<u>\$245,218</u>

The School had no deferred outflows or inflows of resources at June 30, 2013 or 2012. The School's total net position increased \$239,948 during the 2013 fiscal year. The increase in the School's net position indicates that the School had more incoming revenues than outgoing expenses during the year.

Total revenues generated from government grants, governmental funds, and donations were \$2,271,547 during the 2013 fiscal year which is \$932,864 or 69.7% increase over 2012. Contributions from individuals and organizations were \$3,782 higher than 2012. At this time, the School is focusing on government grants and funding as their primary means of revenue, until they are more established in the community, and have built up potential donors. In the future, the School intends to solicit donors and build up contribution income. The School realized an overall decrease in federal funding as compared to 2012 as a result of a scheduled decrease in the School's Planning Grant and Title I funded coach position, offset by an increase in the USDA School Lunch Program due to increased enrollment. Finally, District funding was awarded in 2013 for the School's second academic year. The main driver of this award is student enrollment, which increased due to the addition of a 6<sup>th</sup> grade class. STEM focused on building enrollment through concerted recruiting and marketing efforts in the community and was able to start their second academic year with an enrollment of 208.

Total expenses were \$2,043,571 during the 2013 fiscal year, which was \$874,787 higher than 2012. The majority of this increase is directly related to hiring of additional teachers, instructional expenses related to the addition of a 6<sup>th</sup> grade class, and occupancy costs for the building the School utilizes.

The increase in net position of \$239,948 is \$49,300 higher than in 2012. While operating expenses increased significantly in 2013, increases in revenue from district funding offset this increase in expense.



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

A schedule of the School's revenue and expenses for the years ended June 30, 2013 and 2012, is as follows. The schedule is for the School as a whole, not for the governmental funds.

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Contributions	\$ 17,916	\$ 14,134
District funding	1,845,645	847,262
Federal and state grants	407,986	477,287
Other	<u>11,972</u>	<u>20,749</u>
Total revenues	<u>2,283,519</u>	<u>1,359,432</u>
<b>Expenses</b>		
Instructional	45,608	50,768
Food Services	143,865	71,303
Occupancy	200,719	168,600
Office	67,466	24,489
Organizational development	39,231	17,877
Other	2,074	3,275
Service fees	73,803	48,117
Employee compensation	1,238,318	647,892
Staff development	26,796	7,568
Transportation	171,222	107,281
Depreciation	<u>34,469</u>	<u>21,614</u>
Total expenses	<u>2,043,571</u>	<u>1,168,784</u>
Change in net position	<u>\$ 239,948</u>	<u>\$ 190,648</u>

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The School's funds, as presented on the Balance Sheet on page 13, report a combined fund balance of \$358,196. 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, 2013, the differences are minor and consist of capital assets, which are not reported in the School's funds.

**SCHOOL MISSION AND MODEL**

STEM Preparatory Academy (STEM) opened in July 2011 to its inaugural class of fifth grade students and will continue to add a grade each year thereafter, 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 21<sup>st</sup> Century.

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

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.

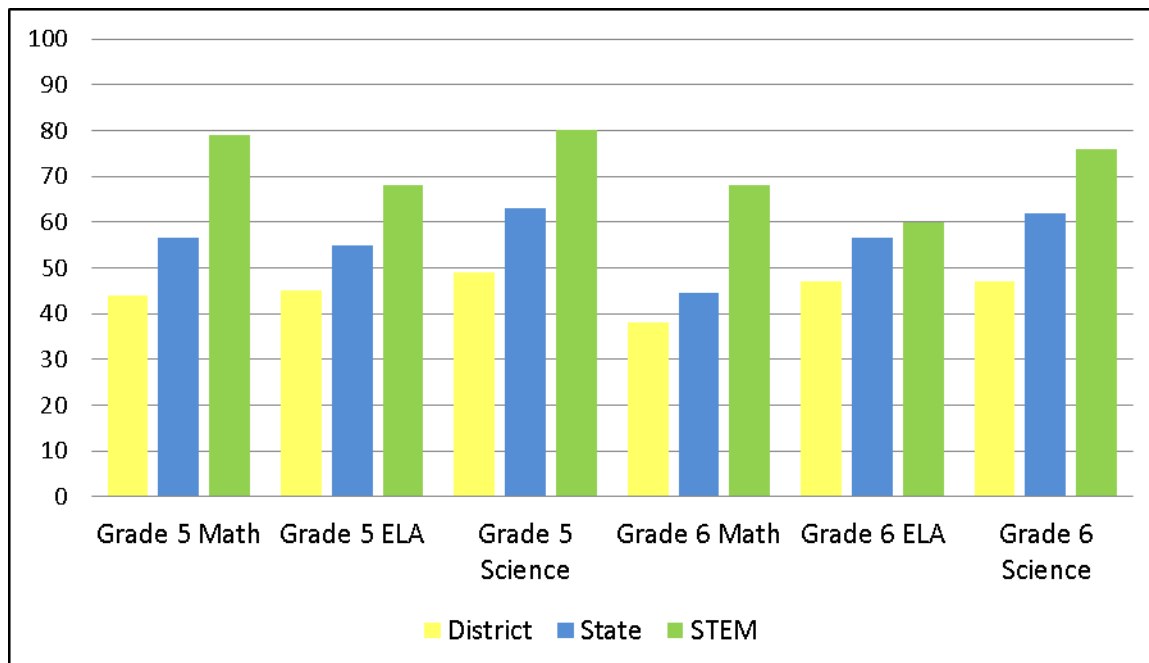
STEM engages students in inquiry based learning activities that focus on solving real world problems. These “capstone projects” require students to think critically, write, research, present and build 21st Century skills that will enable them to access and persist in the jobs of the future. In addition, 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 second 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 2012-2013 school year. Reward schools represent the top five percent of all schools in the state.

The data overview below highlights STEM’s results on the 2013 Tennessee Comprehensive Assessment Program (TCAP) relative to its peers.

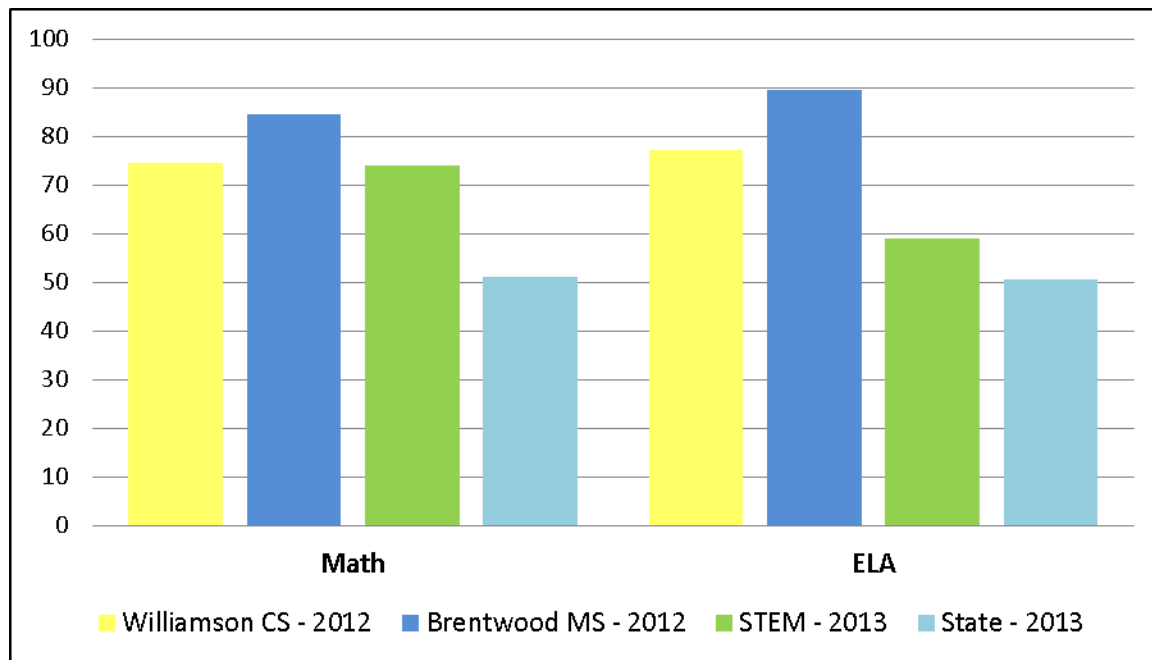
**Table 1. TCAP Performance Comparison** - District and State.



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

Further, STEM aims to outperform the highest performing institutions in Tennessee. In 2012-2013, STEM students in mathematics matched the performance of their peers in Williamson County Schools, the top-performing school district in the state. STEM aims to close the achievement gap between our South Nashville students and those students attending Williamson's Brentwood Middle School, the top-performing middle school in Tennessee.

**Table 2. TCAP Performance Comparison** - Williamson County.



In 2012, among all charter schools in the state, STEM ranked 3<sup>rd</sup> in reading growth and 5<sup>th</sup> in math growth as measured by the Tennessee Value Added Assessment System (TVAAS) according to a study performed by Stanford University's Center for Research on Education Outcomes (CREDO).<sup>1</sup>

## AWARDS

In its second year of operation, STEM received two awards from the Tennessee Charter School Association in May 2013: Innovative School of the Year and Advocate of the Year. In the same year, the School's founding math teacher and instructional coach was a national finalist for the competitive Teach for America alumni awards program.

<sup>1</sup> Effect size data may be obtained through the Achievement School District's report, published August 2012. [http://www.achievementschooldistrict.org/wp-content/uploads/2012/08/Effect-Size\\_TN-Data-2011-20122.pdf](http://www.achievementschooldistrict.org/wp-content/uploads/2012/08/Effect-Size_TN-Data-2011-20122.pdf)

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

**STUDENT ENROLLMENT FACTORS AND NEXT YEAR'S BUDGET**

Fiscal Year 2014 enrollment is projected to be over 300 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 a 7<sup>th</sup> grade class. Additionally, the school expects per pupil BEP funding to remain flat for the 2013-14 school year. For fiscal year 2014, the School expects to raise approximately \$25,000 in non-government funds. STEM believes a continued focus on cultivating the existing donor base, and a Board of Directors committed to hitting fundraising targets will help the school reach this goal.

**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](mailto:kmcgraner@stemprepacademy.org).

STEM PREPARATORY ACADEMY  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 377,908
Other current assets	28,803
Capital assets, net	<u>126,970</u>
Total assets	<u>533,681</u>
LIABILITIES	
Accounts payable	10,945
Accrued expenses	<u>37,570</u>
Total liabilities	<u>48,515</u>
NET POSITION	
Net investment in capital assets	126,970
Restricted - nonexpendable	15,498
Unrestricted	<u>342,698</u>
Total net position	<u><u>\$ 485,166</u></u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

GOVERNMENTAL ACTIVITIES:	Total	Functions		
		Student Instruction and Services	Administration	Fundraising
EXPENSES				
Instructional	\$ 45,608	\$ 45,608	\$ -	\$ -
Food services	143,865	143,865	-	-
Occupancy	200,719	160,575	40,144	-
Office	67,466	-	67,466	-
Organizational development	39,231	-	39,231	-
Other	2,074	1,878	196	-
Professional services and fees	73,803	5,400	68,403	-
Employee compensation	1,238,318	978,935	259,383	-
Staff development	26,796	26,147	649	-
Transportation	171,222	171,222	-	-
Depreciation	34,469	27,575	6,894	-
Total expenses	2,043,571	1,561,205	482,366	-
PROGRAM REVENUES				
Operating grants and contributions	350,042	350,042	-	-
Capital grants and contributions	28,972	28,972	-	-
Net program expenses	<u>\$ 1,664,557</u>	<u>\$ 1,182,191</u>	<u>\$ 482,366</u>	<u>\$ -</u>
GENERAL REVENUES				
Contributions	17,916			
District funding	1,874,617			
Other	11,972			
Total general revenues	<u>1,904,505</u>			
CHANGE IN NET POSITION	239,948			
NET POSITION, June 30, 2012	<u>245,218</u>			
NET POSITION, June 30, 2013	<u>\$ 485,166</u>			

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 377,908	\$ -	\$ 377,908
Other current assets	<u>28,803</u>	<u>-</u>	<u>28,803</u>
Total assets	<u>\$ 406,711</u>	<u>\$ -</u>	<u>\$ 406,711</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 10,945	\$ -	\$ 10,945
Accrued expenditures	<u>37,570</u>	<u>-</u>	<u>37,570</u>
Total liabilities	<u>48,515</u>	<u>-</u>	<u>48,515</u>
<b>FUND BALANCES</b>			
Nonspendable	15,498	-	15,498
Unassigned	<u>342,698</u>	<u>-</u>	<u>342,698</u>
Total fund balances	<u>358,196</u>	<u>-</u>	<u>358,196</u>
Total liabilities and fund balances	<u>\$ 406,711</u>	<u>\$ -</u>	<u>\$ 406,711</u>

See accompanying notes to financial statements.

STEM PREPARATORY ACADEMY  
BALANCE SHEET  
GOVERNMENTAL FUNDS - CONTINUED  
JUNE 30, 2013

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

Total governmental fund balances above	\$ 358,196
Capital assets not reported above	<u>126,970</u>
Net position of governmental activities in the statement of net position	<u>\$ 485,166</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, 2013

	General Purpose School Fund	Federal and State Grants Fund	Total Governmental Funds
REVENUES			
Contributions	\$ 17,916	\$ -	\$ 17,916
District funding	1,874,617	-	1,874,617
Federal and state grants	-	379,014	379,014
Other income	11,972	-	11,972
Total revenues	<u>1,904,505</u>	<u>379,014</u>	<u>2,283,519</u>
EXPENDITURES			
Current:			
Instructional	8,703	36,905	45,608
Food services	22,330	121,535	143,865
Occupancy	167,887	32,832	200,719
Office	36,706	30,760	67,466
Organizational development	38,731	500	39,231
Other	2,074	-	2,074
Professional services and fees	60,742	13,061	73,803
Employee compensation	1,134,811	103,507	1,238,318
Staff development	26,296	500	26,796
Transportation	171,222	-	171,222
Capital outlay	<u>26,544</u>	<u>39,414</u>	<u>65,958</u>
Total expenditures	<u>1,696,046</u>	<u>379,014</u>	<u>2,075,060</u>
NET CHANGE IN FUND BALANCES	208,459	-	208,459
FUND BALANCES, June 30, 2012	<u>149,737</u>	<u>-</u>	<u>149,737</u>
FUND BALANCES, June 30, 2013	<u>\$ 358,196</u>	<u>\$ -</u>	<u>\$ 358,196</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, 2013

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	\$ 208,459
Amounts reported as expenditures in the governmental funds not included as expenses in the school-wide statements:	
Capital outlays	65,958
Expenses in the school-wide statements not included in the governmental funds:	
Depreciation expense	<u>(34,469)</u>
Change in net position of governmental activities	<u>\$ 239,948</u>

See accompanying notes to financial statements.

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

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 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.

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, 2013

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, 2013. 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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

*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.

*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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

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

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, 2013

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.

B. DEPOSITS WITH FINANCIAL INSTITUTION

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

C. CAPITAL ASSETS

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

	Balance <u>July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2013</u>
Office equipment	\$ 33,074	\$ 6,400	\$ -	\$ 39,474
Furniture and fixtures	8,399	3,127	-	11,526
Computer equipment	46,446	34,450	-	80,896
Leasehold improvements	<u>29,707</u>	<u>21,981</u>	<u>-</u>	<u>51,688</u>
Subtotal	117,626	65,958	-	183,584
Accumulated depreciation	<u>( 22,145)</u>	<u>(34,469)</u>	<u>-</u>	<u>( 56,614)</u>
Capital assets, net	<u>\$ 95,481</u>	<u>\$ 31,489</u>	<u>\$ -</u>	<u>\$ 126,970</u>

Depreciation was charged to governmental activities as follows:

Student instruction and services	\$27,575
Administration	<u>6,894</u>
	<u>\$34,469</u>

D. LINE-OF-CREDIT

The School has a \$150,000 line-of-credit with a bank, which expired July 31, 2013. The line-of-credit was extended to July 2014, subsequent to year-end. As of June 30, 2013, there were no outstanding amounts under the line.



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

E. LEASING EXPENSES

The facilities used to provide educational services are provided under a two-year lease arrangement from a private party that expired August 1, 2013. The arrangement requires the School to pay rent in monthly installments of \$7,445 through May 2013, and increasing to \$7,668 thereafter. 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 in advance by Metro. The School estimates tenant improvements at a cost of \$629,641 to be funded by a construction loan (See Note J).

F. FUND BALANCES

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

G. CONCENTRATIONS

The School received 81% of its funding for operations through the Metropolitan Nashville Public Schools ("MNPS") based on the State of Tennessee's Basic Education Program ("BEP"). BEP funding is designated to schools based on student attendance. Gross BEP funding for the year ended June 30, 2013, was \$1,845,645. Outside fundraising for capital needs is on-going since the charter school agreement with MNPS does not include an allocation for capital expenditures.

H. RETIREMENT PLANS

Teacher Plan Description

The School contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), 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

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

H. RETIREMENT PLANS - Continued

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 SETHEPP. 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](http://www.treasury.state.tn.us).

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, 2013, was 8.88% of annual covered payroll.

Non-Teacher 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

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

H. RETIREMENT PLANS - Continued

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](http://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, 2013, was 15.938% 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, 2013, 2012, and 2011, totaled \$83,376, \$38,630, and \$975, respectively.

I. 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, 2013 were \$164,393.

J. SUBSEQUENT EVENT

Effective July 2, 2013, the School entered into a construction loan agreement with a private party to fund the tenant improvement costs related to the lease of a new educational facility in South Nashville (see Note E). Total principal on the note is \$629,641 with a fixed interest rate of 4.75% per annum. Monthly interest payments began August 1, 2013, with monthly principal and interest payments of \$8,850 commencing November 1, 2013. The final principal and interest payment of \$6,469 is due on October 1, 2020. The note is collateralized by substantially all of the School's assets.

## **OTHER INFORMATION**

STEM PREPARATORY ACADEMY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013

<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Balance July 1, 2012 (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:			
Charter School Programs (CSP) Planning and Initial Implementation Grant	84.282B	N/A	-
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	(27,385)
Special Education Cluster (IDEA) Special Education - Grants To States	84.027	N/A	<u>-</u>
			<u>\$(27,385)</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, 2013 (Receivable) <u>Payable</u>
\$121,535	\$121,535	\$ -
125,000	125,000	-
100,838	73,453	-
<u>30,054</u>	<u>30,054</u>	<u>-</u>
<u><u>\$377,427</u></u>	<u><u>\$350,042</u></u>	<u><u>\$ -</u></u>

See independent auditor's report.

STEM PREPARATORY ACADEMY  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
YEAR ENDED JUNE 30, 2013

<u>Grantor</u>	<u>State Contract Number</u>	<u>Balance July 1, 2012</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance June 30, 2013</u>
TENNESSEE DEPARTMENT OF EDUCATION:					
Basic Education Program	N/A	\$ -	\$ 28,972	\$ 28,972	\$ -
Passed through Metropolitan Nashville Public Schools					
Basic Education Program	N/A	<u>-</u>	<u>1,874,617</u>	<u>1,874,617</u>	<u>-</u>
		<u>\$ -</u>	<u>\$1,903,589</u>	<u>\$1,903,589</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, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 30, 2013.

**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.

*Crosslin + Associates, P.C.*

Nashville, Tennessee  
October 30, 2013