



AEROSTEM ACADEMY INC.

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2021**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOL**

AeroSTEM Academy (Charter No. 2000)

AEROSTEM ACADEMY INC.
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JUNE 30, 2021

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FINANCIAL SECTION



Certified Public Accountants serving
K-12 School Districts and Charter
Schools throughout California

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
AeroSTEM Academy Inc.
Yuba City, California

Report on the Financial Statements

We have audited the accompanying financial statements of AeroSTEM Academy Inc. (the "Charter") which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AeroSTEM Academy Inc. as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2022, on our consideration of the Charter's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter's internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
January 10, 2022

AEROSTEM ACADEMY INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2021

ASSETS

Current assets

Cash and cash equivalents	\$ 140,873
Accounts receivable	686,494
Prepaid expenses	11,739
Total current assets	<u>839,106</u>

Capital assets

Property and equipment	624,713
Less accumulated depreciation	<u>(243,705)</u>
Capital assets, net	381,008
Total Assets	\$ 1,220,114

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 125,655
Deferred revenue	64,557
Loans payable	872,201
Total liabilities	<u>1,062,413</u>

Net assets

Without donor restrictions	<u>157,701</u>
Total net assets	157,701
Total Liabilities and Net Assets	\$ 1,220,114

The notes to the financial statements are an integral part of this statement.

AEROSTEM ACADEMY INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 956,966
Federal revenues	223,313
Other state revenues	205,557
Total federal and state support and revenues	<u>1,385,836</u>
Local support and revenues	
Payments in lieu of property taxes	301,147
Grants and donations	130,230
Other local revenues	8,188
Total local support and revenues	<u>439,565</u>
Total Support and Revenues	<u>1,825,401</u>
 EXPENSES	
Program services	1,046,788
Management and general	568,143
Total Expenses	<u>1,614,931</u>
 CHANGE IN NET ASSETS	 210,470
 Net Assets - Beginning	 <u>(52,769)</u>
 Net Assets - Ending	 <u>\$ 157,701</u>

The notes to the financial statements are an integral part of this statement.

AEROSTEM ACADEMY INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 349,188	\$ 91,392	\$ 440,580
Non-certificated salaries	897	106,330	107,227
Pension plan contributions	81,837	38,499	120,336
Payroll taxes	12,211	10,575	22,786
Other employee benefits	77,105	42,087	119,192
Total personnel expenses	521,238	288,883	810,121
Non-personnel expenses			
Books and supplies	124,114	10,304	134,418
Insurance	-	36,744	36,744
Facilities	133,945	75,650	209,595
Professional services	88,163	77,940	166,103
Interest expense	18,021	12,642	30,663
Depreciation	75,897	42,866	118,763
Payments to authorizing agency	51,933	4,541	56,474
Other operating expenses	33,477	18,573	52,050
Total non-personnel expenses	525,550	279,260	804,810
Total Expenses	\$ 1,046,788	\$ 568,143	\$ 1,614,931

The notes to the financial statements are an integral part of this statement.

AEROSTEM ACADEMY INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 210,470
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	118,763
(Increase) decrease in operating assets	
Accounts receivable	(429,704)
Prepaid expenses	(11,739)
Increase (decrease) in operating liabilities	
Accounts payable	36,016
Deferred revenue	64,557
Net cash provided by (used in) operating activities	<u>(11,637)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Draws or proceeds from loans payable	494,395
Principal payments on loans payable	(347,194)
Net cash provided by (used in) financing activities	<u>147,201</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 135,564

Cash and cash equivalents - Beginning 5,309

Cash and cash equivalents - Ending \$ 140,873

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ 28,750</u>
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The notes to the financial statements are an integral part of this statement.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

AeroSTEM Academy Inc. (the “Charter”) was formed as a nonprofit public benefit corporation on July 27, 2017 for the purpose of operating as a California public school located in Sutter County. The Charter was numbered by the State Board of Education in August 2018 as California Charter No. 2000. AeroSTEM Academy prepares students of today for the growing college and career opportunities of tomorrow. During the year ended June 30, 2021, AeroSTEM Academy Inc. served grades 6 to 11.

AeroSTEM Academy Inc. is authorized to operate as a charter school through Sutter County Superintendent of Schools (the “authorizing agency”). On May 9, 2018, the Sutter County Board of Education approved a conditional charter petition for the Charter for a three-year term beginning July 1, 2018 and expiring on June 30, 2021. In March 2021, the Sutter County Board of Education approved a charter renewal petition for the period of July 1, 2021 to June 30, 2026. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public.

B. Basis of Accounting

The Charter’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018. Under the Guide, AeroSTEM Academy Inc. is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

As a public charter school, AeroSTEM Academy Inc. also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is not used in the Charter’s financial statement presentation.

D. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Contributions

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as “net assets released from restrictions.” Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

F. In Lieu of Property Tax Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the local school district. In lieu of distributing funds out of property tax proceeds, the local school district makes monthly payments to AeroSTEM Academy Inc. Revenues are recognized by the Charter when earned.

G. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management’s estimates.

H. Cash and Cash Equivalents

AeroSTEM Academy Inc. considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

The Charter’s method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities. Investment return is presented net of any investment fees.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2021, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. Capital Assets

AeroSTEM Academy Inc. has adopted a policy to capitalize asset purchases over \$5,000. Lesser amounts are expensed. Donations of capital assets are recorded as contributions at their estimated fair value. Such donations are reported as net assets without donor restrictions. Capital assets are depreciated using the straight-line method over the estimated useful lives of the property and equipment or the related lease terms.

L. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

M. Income Taxes

AeroSTEM Academy Inc. is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Charter is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As a school, the Charter is not required to register with the California Attorney General as a charity.

The Charter's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Charter's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

N. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Pronouncement

Leases

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021. The Charter will determine the impact on the financial statements once required to implement in the 2022-23 fiscal year.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2021, consists of the following:

Cash in banks, non-interest bearing	\$	138,022
Cash on hand or awaiting deposit		2,851
Total Cash and Cash Equivalents	\$	140,873

As of June 30, 2021, AeroSTEM Academy Inc.'s bank balance was not exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. AeroSTEM Academy Inc. does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2021, consists of the following:

Local control funding sources, state aid	\$	433,676
Federal sources		69,749
Other state sources		54,150
In lieu property tax payments		98,889
Other local sources		30,030
Total Accounts Receivable	\$	686,494

NOTE 4 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2021 consists of the following:

	Balance July 1, 2020	Additions	Disposals	Balance June 30, 2021
Property and equipment				
Building and improvements	\$ 562,919	\$ -	\$ -	\$ 562,919
Vehicles	61,794	-	-	61,794
Total property and equipment	624,713	-	-	624,713
Less accumulated depreciation	(124,942)	(118,763)	-	(243,705)
Capital Assets, net	\$ 499,771	\$ (118,763)	\$ -	\$ 381,008

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2021, consists of the following:

Due to authorizing agency	\$	54,815
Salaries and benefits		54,141
Vendor payables		16,699
Total Accounts Payable	\$	125,655

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30, 2021, consists of \$64,557 from state sources.

NOTE 7 – LOANS PAYABLE

A summary of activity related to loans payable during the year ended June 30, 2021 consists of the following:

	Balance July 1, 2020	Draws	Payments	Balance June 30, 2021
Charter revolving loan	\$ 125,000	\$ -	\$ 125,000	\$ -
Due to CORE Charter	600,000	-	-	600,000
Sale of receivables	-	494,395	222,194	272,201
Total Loans Payable	\$ 725,000	\$ 494,395	\$ 347,194	\$ 872,201

Charter Revolving Loan

In May 2018, the Charter entered into an agreement to borrow \$250,000 through the Charter Revolving Loan Fund Program administered by the California School Finance Authority (CSFA). The Charter received two disbursements: \$100,000 on September 27, 2018 and \$150,000 on March 20, 2019. The loan is to be repaid over a two-year period ending January 2021. The revolving notes bears an annualized interest rate equal to the "prime rate" of 2.09% on the first disbursement and 2.44% on the second. During the fiscal year ended June 30, 2021, the Charter made payments of \$127,269, which included \$125,000 of principal and \$2,269 of interest expense. There was no outstanding balance on this loan as of June 30, 2021.

Due to CORE Charter

The Charter holds a loan due to CORE Charter for \$600,000 as of June 30, 2021. The amount consists of \$850,000 in expenses paid by CORE Charter on behalf of AeroSTEM Academy during its first years of operation less \$250,000, which was forgiven by CORE Charter in the prior year. As agreed upon within a memorandum of understanding (MOU), the balance was initially to be fully repaid by June 2023 and included a three percent interest rate, but the repayment date was extended to June 30, 2025. Refer to Note 13 for additional information on related party transactions. Future repayment obligations are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	\$ 150,000	\$ 18,000	\$ 168,000
2023	150,000	13,500	163,500
2024	150,000	9,000	159,000
2025	150,000	4,500	154,500
Total	\$ 600,000	\$ 45,000	\$ 645,000

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 7 – LOANS PAYABLE (continued)

Sale of Receivables

In December 2020, the Charter entered into several factoring agreements with Charter Asset Management (CAM) whereby future receivables were collateralized for short-term borrowings. The total amount borrowed during the fiscal year amounted to \$494,395 and \$222,194 was repaid for a remaining balance at June 30, 2021 of \$272,201. The outstanding amount is to be repaid in the 2021-22 fiscal year once local control funding formula sources are received in July through November 2021. The Charter recorded a total of \$10,394 in discounts and fees associated with these factoring agreements.

NOTE 8 – NET ASSETS

As of June 30, 2021, the Charter had no net assets with donor restrictions. Certain designations or reserves have been made for the use of net assets without donor restrictions either by the board, management or by nature of the financial assets held by the Charter. At June 30, 2021, the Charter's net assets without donor restrictions consist of the following:

Net investment in capital assets	\$ 381,008
Undesignated	(223,307)
Total Net Assets without Donor Restrictions	\$ 157,701

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter's financial assets as of June 30, 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

Financial Assets	
Cash and cash equivalents	\$ 140,873
Accounts receivable, current portion	686,494
Prepaid expenses	11,739
Total Financial Assets, excluding noncurrent	<u>\$ 839,106</u>
Contractual or donor-imposed restrictions	
Cash intercept for sale of receivables	<u>(210,288)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 628,818</u>

NOTE 10 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code* 47605, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charter has made such election. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and non-certificated employees are members of the California Public Employees' Retirement System (CalPERS).

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 10 – EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description

AeroSTEM Academy Inc. contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 10.205% of their 2020-21 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2020-21 was 16.15% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalSTRS for the fiscal year ended June 30, 2021 was \$66,396.

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for AeroSTEM Academy Inc. is estimated at \$33,814. The on-behalf payment amount is computed as the proportionate share of total 2019-20 State on-behalf contributions.

California Public Employees' Retirement System (CalPERS)

Plan Description

AeroSTEM Academy Inc. contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

Funding Policy

Active plan members, who entered into the plan prior to January 1, 2013, are required to contribute 7.0% of their salary. The California Public Employees' Pension Reform Act (PEPRA), specifies that new members entering into the plan on or after January 1, 2013, shall pay the higher of fifty percent of normal costs or 7.0% of their salary. Additionally, for new members entering the plan on or after January 1, 2013, the employer is prohibited from paying any of the employee contribution to CalPERS unless the employer payment of the member's contribution is specified in an employment agreement or collective bargaining agreement that expires after January 1, 2013.

AeroSTEM Academy Inc. is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2020-21 was 20.70% of annual payroll. The contribution requirements of the plan members are established by state statute. The Charter's contributions to CalPERS for the year ended June 30, 2021 was \$20,126.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Charter School Authorization

As mentioned in Note 1A, AeroSTEM Academy Inc. is approved to operate as a public charter school through authorization by the Sutter County Superintendent of Schools. As such, the Charter is subject to the risk of possible non-renewal or revocation at the discretion of its authorizing agency if certain criteria for student outcomes, management, and/or fiscal solvency are not met.

Governmental Funds

AeroSTEM Academy Inc. has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements would not be material.

Multiemployer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Charter's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Charter to make payments to the plan, which would approximate the Charter's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Charter's share of withdrawal liability is approximately \$579,617 as of June 30, 2020. Also as of June 30, 2020, CalPERS has estimated the Charter's share of withdrawal liability to be \$140,004. The Charter does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 10 for additional information on employee retirement plans.

Operating Lease

In November 2019, the Charter entered into two separate lease agreements with the same party to cover a term of five years for the use of a parcel located at the Sutter County Airport. The first lease agreement covers a term from January 1, 2019 to December 31, 2020 and calls for monthly payments of \$2,000. The second lease is an extension of the original agreement for a term beginning January 1, 2020 and ending December 31, 2024 with a monthly payment of \$3,083.33. During the fiscal year ended June 30, 2021, a total of \$12,000 was made in lease payments associated with the initial agreement. Future minimum lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2022	\$ 37,000
2023	37,000
2024	37,000
2025	18,500
Total	<u>\$ 129,500</u>

NOTE 12 – DONATED GOODS AND SERVICES

During the year, many parents, administrators and other individuals donated significant amounts of time and services to AeroSTEM Academy Inc. in an effort to advance the Charter's programs and objectives. These services have not been recorded in the Charter's financial statements because they do not meet the criteria required by generally accepted accounting principles.

During the fiscal year ended June 30, 2021, the Charter received a noncash donation of materials and supplies valued at \$20,000. This noncash donation has been recorded as both revenue within grants and donations on the statement of activities and an expense under books and supplies on the statement of functional expenses.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2021

NOTE 13 – RELATED PARTY TRANSACTIONS

Authorizing Agency

The Charter makes payments to the authorizing agency, Sutter County Superintendent of Schools, to provide required services for special education and other purchased services in addition to fees for oversight. Fees associated with oversight consisted of 1% of revenue from local control funding formula sources. Oversight fees for the fiscal year ended June 30, 2021 amounted to \$12,581.

CORE Charter School

CORE Charter School (CORE) is a separate nonprofit organization with a governing board independent from the Charter. During the fiscal year ended June 30, 2019, CORE aided in the start-up of AeroSTEM Academy, a newly operational charter school, which previously operated as a learning center of CORE.

In January 2018, CORE and AeroSTEM Academy entered into a memorandum of understanding (MOU) for CORE to provide temporary funds up to \$600,000 to the Charter for start-up and operational needs during its first year of operation. The agreement initially allowed for repayment in full on or before June 30, 2023 and included a three percent interest rate, but extended the repayment date to June 30, 2025. For the Charter's initial years of operation, CORE directly paid for expenses on behalf of the Charter. As mentioned in Note 7, the outstanding balance as of June 30, 2021 due from AeroSTEM Academy Inc. to CORE was \$600,000.

The Charter receives funding for certain state programs that are passed-through CORE Charter. Although originating from state sources, the funding is presented as local revenue within the statement of activities because the Charter is not specifically listed as the awardee by the State. Total funding passed-through CORE to AeroSTEM Academy amounted to \$107,980 for the fiscal year ended June 30, 2021.

The Charter and CORE entered into a separate MOU in April 2018 whereby CORE provided administrative support services and was compensated based on the MOU which addressed these shared services. The MOU shared services agreement is in effect for the 2018-19 through 2020-21 school years. CORE received a total of \$16,000 from AeroSTEM Academy for shared services during the fiscal year ended June 30, 2021.

NOTE 14 – SUBSEQUENT EVENTS

AeroSTEM Academy Inc. has evaluated subsequent events for the period from June 30, 2021 through January 10, 2022, the date the financial statements were available to be issued.

As mentioned under Note 7 within sale of receivables, the Charter entered into several factoring agreements with CAM that are secured against receivables for local control funding formula sources. Subsequent to June 30, 2021, the Charter received proceeds over \$130,000 for additional factoring agreements with CAM that are secured by 2021-22 state and federal funding sources to aid in operational cash flow needs.

Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

AEROSTEM ACADEMY INC.
LEA ORGANIZATION STRUCTURE
JUNE 30, 2021

AeroSTEM Academy Inc., located in Sutter County, was formed as a nonprofit public benefit corporation on July 27, 2017 and was numbered by the State Board of Education in August 2018 as California Charter No. 2000. The Charter is authorized to operate as a charter school through the Sutter County Superintendent of Schools. Instruction initially began in August 2018. During 2020-21, the Charter served approximately 139 students in grades 6 to 11.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
David Heslop	President	June 30, 2021
Dallan Reese	Secretary & Treasurer	June 30, 2021
Leslie Sanders	Member	March 8, 2022
Suzanne Brown	Member	June 30, 2021
Karen Peters	Member	December 13, 2021

ADMINISTRATION

Kathy Smith
School Director

AEROSTEM ACADEMY INC.
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2021

Grade Span	2020-21	Status
	Number of Days	
Grades 6 through 8	176	Complied
Grades 9 through 11	176	Complied

See accompanying notes to supplementary information.

AEROSTEM ACADEMY INC.

RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL STATEMENTS

JUNE 30, 2021

There were no adjustments to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets per the audited financial statements for the year ended June 30, 2021.

See accompanying notes to supplementary information.

AEROSTEM ACADEMY INC.
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2021

NOTE 1 – PURPOSE OF SCHEDULES

A. LEA Organization Structure

This schedule provides information about the local education agency (LEA or charter school), including the Charter's authorizing agency, grades served, members of the governing body, and members of the administration.

B. Schedule of Instructional Time

This schedule presents information on the number of instructional days offered per grade level by the AeroSTEM Academy Inc. and whether the Charter complied with the provisions of *Education Code Section 47612*.

C. Reconciliation of Financial Report – Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets on the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS



Certified Public Accountants serving
K-12 School Districts and Charter
Schools throughout California

**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**

Independent Auditors' Report

To the Board of Directors of
AeroSTEM Academy Inc.
Yuba City, California

We have audited, 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, the financial statements of AeroSTEM Academy Inc. (the "Charter") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Charter's basic financial statements and have issued our report thereon dated January 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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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 Charter'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 Charter's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Christy White, Inc.

San Diego, California
January 10, 2022



Certified Public Accountants serving
K-12 School Districts and Charter
Schools throughout California

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

To the Board of Directors of
AeroSTEM Academy Inc.
Yuba City, California

Report on State Compliance

We have audited AeroSTEM Academy Inc.'s compliance with the types of compliance requirements described in the *2020-21 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of AeroSTEM Academy Inc.'s state programs for the fiscal year ended June 30, 2021, as identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of AeroSTEM Academy Inc.'s state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2020-21 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below. An audit includes examining, on a test basis, evidence about AeroSTEM Academy Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of AeroSTEM Academy Inc.'s compliance with those requirements.

Opinion on State Compliance

In our opinion, AeroSTEM Academy Inc. complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the following table for the year ended June 30, 2021.

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Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine AeroSTEM Academy Inc.'s compliance with the state laws and regulations applicable to the following:

Description	Procedures Performed
Local Education Agencies	
Attendance and Distance Learning	Yes
Teacher Certification and Misassignments	Not applicable
Kindergarten Continuance	Not applicable
Instructional Time	Yes
Instructional Materials	Not applicable
Ratio of Administrative Employees to Teachers	Not applicable
Classroom Teacher Salaries	Not applicable
Early Retirement Incentive	Not applicable
GANN Limit Calculation	Not applicable
School Accountability Report Card	Not applicable
K-3 Grade Span Adjustment	Not applicable
Apprenticeship: Related and Supplemental Instruction	Not applicable
Comprehensive School Safety Plan	Not applicable
District of Choice	Not applicable
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Charter Schools	
Independent Study – Course Based	Not applicable
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Charter School Facility Grant Program	Yes

Christy White, Inc.

San Diego, California
January 10, 2022

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

AEROSTEM ACADEMY INC.
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2021

Financial Statements

Type of auditors' report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

*The Charter did not expend more than \$750,000 in federal awards;
therefore, a Federal Single Audit under OMB Uniform Grant Guidance
is not applicable.*

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

AEROSTEM ACADEMY INC.
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021

FIVE DIGIT CODE

20000
30000

AB 3627 FINDING TYPE

Inventory of Equipment
Internal Control

There were no audit findings related to the financial statements during 2020-21.

AEROSTEM ACADEMY INC.
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021

FIVE DIGIT CODE

10000
40000
42000
43000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Apprenticeship: Related Supplemental Instruction
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings and questioned costs related to state awards during 2020-21.

**AEROSTEM ACADEMY INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021**

FINDING 2020-001: ACCOUNTING SOFTWARE (30000) (Material Weakness)

Criteria: Management is responsible for designing and implementing a system of internal controls over financial reporting that provides reasonable assurance that misstatements and/or noncompliance affecting the financial statements are prevented or detected and corrected through normal operation procedures. Underlying the financial statements are management's assertions as to the accuracy and completeness of the accounting records. Accounting software supports the integrity of accounting data and assists with accurate financial reporting.

Condition: Through inquiry and review, we noted that the Charter used Microsoft Excel-based tracking of accounting transactions and financial reports for the full 2019-20 fiscal year. The Charter was unable to provide adequate financial reports for audit. There was no use of journal entries to make corrections or otherwise track changes in accounting records, which prevented the audit of contemporaneous recordkeeping. Financial information for the 2019-20 fiscal year was provided by use of the Financial Report – Alternative Form (Charter Unaudited Actuals), which required several adjustments for presentation of complete financial statements. Although management made efforts to contract for services during the year and began consulting with a back-office provider in March 2020, the Charter was not able to on-board for full use of accounting software until July 1, 2020.

Cause: The Charter operated without comprehensive, reliable accounting software for the 2019-20 fiscal year. The Charter's use of an affiliate for business services was not sufficient to mitigate the identified risks.

Effect or Potential Effect: Manual entry and incomplete information jeopardized management's ability to make assertions of accuracy, completeness, classification and cut off. The absence of accounting software for tracking of financial transactions poses a risk to the integrity of the underlying accounting records.

Repeat Finding: This is a repeat finding from 2018-19. Refer to Finding 2019-001 on the summary schedule of prior audit findings and questioned costs.

Recommendation: We recommend that the Charter implement general ledger accounting software immediately. A retroactive implementation to validate the accuracy of financial information for the 2019-20 and 2018-19 fiscal years is also recommended. We advise the governing board to improve monitoring and oversight procedures to include monthly or quarterly review of financial records, including reconciled bank statements. The Charter should reference the California School Accounting Manual Procedure 810 specific to Charter Schools for further guidance.

Corrective Action Plan: AeroSTEM Academy contracted with Charter School Management Corporation (CSMC) for back-office services with full implementation beginning July 1, 2020. CSMC is experienced in charter school financial services and compliance matters and utilizes general ledger software. Financial reporting information is compiled and shared with the governing board for review. The financial reports are formally reviewed at public scheduled board meetings at least quarterly.

Current Status: Implemented.