



AEROSTEM ACADEMY INC.

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2023**

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

AeroSTEM Academy (Charter No. 2000)

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements**Qualified Opinion**

We have audited the accompanying financial statements of AeroSTEM Academy Inc. which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the new accounting standard on leases, ASU No. 2016-02, *Leases (Topic 842)*, not recorded in the financial statements described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of AeroSTEM Academy Inc. as of June 30, 2023, 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.

Basis for Qualified Opinion

As more fully described in section O of Note 1 to the financial statements, AeroSTEM Academy Inc. has not recorded entries related to the new accounting standard, ASU No. 2016-02, *Leases (Topic 842)*, in the financial statements. In our opinion, accounting principles generally accepted in the United States of America require that a right-of-use asset and a related lease liability be recorded on the statement of financial position (balance sheet) for proper recognition of any long-term lease. The effects on the accompanying financial statements of the failure to record a right-of-use asset and related lease liability have not been determined. Additionally, we were not able to obtain sufficient appropriate audit evidence about the amount recognized as an expense abatement because there was a lack of accounting controls over financial reporting.

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of AeroSTEM Academy Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about AeroSTEM Academy Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 AeroSTEM Academy Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about AeroSTEM Academy Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 16, 2024, on our consideration of AeroSTEM Academy Inc.'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 AeroSTEM Academy Inc.'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 of AeroSTEM Academy Inc.'s internal control over financial reporting and compliance.

Christy White, Inc.

San Diego, California
January 16, 2024

AEROSTEM ACADEMY INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 703,419
Accounts receivable	179,936
Total current assets	<u>883,355</u>
Noncurrent assets	
Deposits	2,500
Capital assets, net	150,592
Total noncurrent assets	<u>153,092</u>
Total Assets	<u>\$ 1,036,447</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 113,524
Deferred revenue	298,554
Loans payable	550,000
Total liabilities	<u>962,078</u>
Net assets	
Without donor restrictions	74,369
Total net assets	<u>74,369</u>
Total Liabilities and Net Assets	<u>\$ 1,036,447</u>

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, 2023**

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 1,062,170
Federal revenues	211,837
Other state revenues	<u>523,277</u>
Total federal and state support and revenues	<u>1,797,284</u>
Local support and revenues	
Payments in lieu of property taxes	315,968
Investment income, net	(30,961)
Other local revenues	<u>115,393</u>
Total local support and revenues	<u>400,400</u>
Total Support and Revenues	<u>2,197,684</u>
EXPENSES	
Program services	1,546,975
Management and general	<u>747,076</u>
Total Expenses	<u>2,294,051</u>
CHANGE IN NET ASSETS	(96,367)
Net Assets - Beginning	<u>170,736</u>
Net Assets - Ending	<u>\$ 74,369</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, 2023

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 440,177	\$ 178,578	\$ 618,755
Non-certificated salaries	91,078	152,826	243,904
Pension plan contributions	180,351	53,784	234,135
Payroll taxes	12,442	17,474	29,916
Other employee benefits	76,601	31,171	107,772
Total personnel expenses	<u>800,649</u>	<u>433,833</u>	<u>1,234,482</u>
Non-personnel expenses			
Books and supplies	138,423	30,925	169,348
Insurance	-	36,165	36,165
Facilities	317,928	6,705	324,633
Professional services	111,474	122,055	233,529
Interest expense	-	28,500	28,500
Depreciation	46,006	75,063	121,069
Expense abatement	-	115,815	115,815
Other operating expenses	16,680	13,830	30,510
Total non-personnel expenses	<u>630,511</u>	<u>429,058</u>	<u>1,059,569</u>
Total Expenses	<u>\$ 1,431,160</u>	<u>\$ 862,891</u>	<u>\$ 2,294,051</u>

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, 2023

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (96,367)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	121,069
(Increase) decrease in operating assets	
Accounts receivable	262,319
Prepaid expenses	15,976
Increase (decrease) in operating liabilities	
Accounts payable	(43,704)
Deferred revenue	290,000
Net cash provided by (used in) operating activities	<u>549,293</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal payments on loans payable	<u>(31,312)</u>
Net cash provided by (used in) financing activities	<u>(31,312)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	517,981
Cash and cash equivalents - Beginning	<u>185,438</u>
Cash and cash equivalents - Ending	<u>\$ 703,419</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ 28,500</u>

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

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2023, AeroSTEM Academy Inc. served grades 5 to 12.

AeroSTEM Academy Inc. is authorized to operate as a charter school through Sutter County Superintendent of Schools (the “authorizing agency”). 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. As a result of SB 114, the charter petition end date is extended to June 30, 2027. 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.

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.

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.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Receivables and Allowances (continued)

Based on review of these factors, the Charter establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2023, 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, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. New Accounting Principle

ASC 842 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. T

Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of any operating or finance lease. A right-of-use asset is an intangible asset that pertains to the lessee's right to occupy, operate, and hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

The Charter has not yet determined the impact or reflected the significant change from this accounting principle within its financial statements for the 2022-23 fiscal year. The Charter holds several long-term lease agreements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2023, consists of the following:

Cash in county treasury	\$	618,656
County treasury fair value adjustment		(36,324)
Cash in banks, non-interest bearing		118,970
Cash on hand or awaiting deposit		2,117
Total Cash and Cash Equivalents	\$	703,419

Cash in Banks

Custodial Credit Risk

As of June 30, 2023, 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.

Cash in County Treasury

Policies and Practices

AeroSTEM Academy Inc. is a voluntary participant in an external investment pool. The 2022-23 fiscal year was the first year that the Charter participated and held balances with the County Treasurer. The fair value of the Charter's investment in the pool is reported in the financial statements at amounts based upon the Charter's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest Charter funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the California Government Code:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in the market interest rates. The Charter has managed its exposure to interest rate risk by investing in the county treasury. The Charter's investments in the Sutter County Treasury Investment Pool, which combines the Charter's share of the portfolio, has a combined fair value of \$582,332 and an amortized book value of \$618,656 as of June 30, 2023.

Fair Value Measurement

Cash in county treasury is measured at Level 1 using the fair value input levels noted in Note 1N. The funds were not previously measured. The Charter has classified these funds as Level 1 because the amounts invested in the county treasury pooled investment fund primarily consist of investment types having observable inputs that reflect quoted prices. The investment types include those noted under the general authorizations section.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2023, consists of the following:

Federal sources	\$ 58,771
State sources	121,165
Total Accounts Receivable	<u>\$ 179,936</u>

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 4 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2023 consists of the following:

	July 1, 2022	Additions	Disposals	June 30, 2023
Property and equipment				
Building improvements	\$ 574,450	\$ -	\$ -	\$ 574,450
Vehicles	61,794	-	-	61,794
Total property and equipment	636,244	-	-	636,244
Less accumulated depreciation	(364,583)	(121,069)	-	(485,652)
Capital Assets, net	\$ 271,661	\$ (121,069)	\$ -	\$ 150,592

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2023, consists of the following:

Due to grantor government	\$ 46,055
Salaries and benefits	27,099
Vendor payables	26,539
Due to authorizing agency	13,831
Total Accounts Payable	\$ 113,524

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30, 2023, consists of \$298,554 in unspent conditional contributions from state sources.

NOTE 7 – LOANS PAYABLE

A summary of activity related to loans payable during the year ended June 30, 2023 consists of the following:

	July 1, 2022	Draws	Payments	June 30, 2023
Due to CORE Charter	\$ 550,000	\$ -	\$ -	\$ 550,000
Sale of receivables	31,312	-	31,312	-
Total Loans Payable	\$ 581,312	\$ -	\$ 31,312	\$ 550,000

Sale of Receivables

In the previous year, the Charter entered into several factoring agreements with Charter Asset Management (CAM) whereby future receivables were collateralized for short-term borrowings. The total amount outstanding as of July 1, 2022 was \$31,312. The balance was repaid once local control funding formula sources are received in Fall 2022.

Due to CORE Charter

The Charter holds a loan due to CORE Charter for \$550,000 as of June 30, 2023. 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, and further reduced by payments of \$50,000 made during the fiscal year ended June 30, 2022. 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, 2028. Refer to Note 13 for additional information on related party transactions.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 7 – LOANS PAYABLE (continued)

Due to CORE Charter (continued)

Future repayment obligations are as follows:

<u>Fiscal Year Ending June 30,</u>	
2024	\$ 118,593
2025	118,593
2026	118,593
2027	118,593
2028	118,593
Total payments	<u>592,965</u>
Less Interest	<u>(42,965)</u>
Total	<u>\$ 550,000</u>

NOTE 8 – NET ASSETS

As of June 30, 2023, 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, 2023, the Charter’s net assets without donor restrictions consist of the following:

Net investment in capital assets	\$ 150,592
Undesignated	<u>(76,223)</u>
Total Net Assets without Donor Restrictions	<u>\$ 74,369</u>

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter’s financial assets as of June 30, 2023, 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	\$ 703,419
Accounts receivable	179,936
Contractual or donor-imposed restrictions	
Cash held for conditional contributions	<u>(298,554)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 584,801</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, 2023

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 2022-23 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2022-23 was 19.10% 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, 2023 was \$252,671.

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 \$62,889. The on-behalf payment amount is computed as the proportionate share of total 2021-22 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 2022-23 was 25.37% 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, 2023 was \$71,401.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 11 – 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, 2023, the Charter did not receive any noncash donations.

NOTE 12 – 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.

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, 2023 amounted to \$13,831.

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 \$693,484 as of June 30, 2022. Also as of June 30, 2022, CalPERS has estimated the Charter's share of withdrawal liability to be \$435,947. The Charter does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 10 for additional information on employee retirement plans.

Pending or Threatened Litigation

The Charter has the potential to be involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Charter as of June 30, 2023.

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 covered a term from January 1, 2019 to December 31, 2020 and called 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, 2023, a total of \$37,000 was made in lease payments. Future minimum lease payments are \$37,000 for the 2023-24 fiscal year and \$18,500 for the 2024-25 fiscal year.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 13 – RELATED PARTY TRANSACTIONS

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, 2023 due from AeroSTEM Academy Inc. to CORE was \$550,000. The Charter made a total of \$28,500 in interest-only payments during the fiscal year ended June 30, 2023.

The Charter holds a memorandum of understanding (MOU) with CORE regarding the Career Technical Education and Incentive Grant (CTEIG), whereby, CORE serves as the lead agency and fiscal agent, assumes responsibility for reporting requirements, and provides fiscal and other support services to meet the needs of the CTEIG program. Based on the MOU, the Charter maintains the career technical education pathways and will adhere to CORE's requests and procedures for monitoring and compliance. 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 \$92,039 for the fiscal year ended June 30, 2023.

NOTE 14 – SUBSEQUENT EVENTS

AeroSTEM Academy Inc. has evaluated subsequent events for the period from June 30, 2023 through January 16, 2024, the date the financial statements were available to be issued.

On July 10, 2023, the Governor of California approved Senate Bill 114 (SB 114), which amended California Education Code (EC) 47607.4. The EC was amended to add "all charter schools whose term expires on or between January 1, 2024, and June 30, 2027, inclusive, shall have their term extended by one additional year." As a result, the charter petition end date is extended to June 30, 2027.

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, 2023**

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 2022-23, the Charter served approximately 133 students in grades 5 to 12.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Tony Barber	President	June 30, 2023
Marvin King	Treasurer	June 30, 2023
Rikki Shaffer	Secretary	June 30, 2023
John Floe	Community Member	June 30, 2023
Jennifer Chaplin	Parent Member	June 30, 2023
June McJunkin	Sutter COE Representative	June 30, 2023

ADMINISTRATION

Kathy Smith-McQuerry*
School Director

Jim Walters*
Interim School Director

Karen Peters**
Chief Business Official

*Ms. Smith-McQuerry resigned in December 2023 and Mr. Walters began in January 2023.

**Ms. Peters resigned in January 2023.

**AEROSTEM ACADEMY INC.
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 FOR THE YEAR ENDED JUNE 30, 2023**

	Second Period Report	Annual Report
	Classroom-Based	
Grade Span		
Regular		
Fourth through sixth	26.80	25.89
Seventh through eighth	49.23	48.29
Ninth through twelfth	40.69	39.19
Total Average Daily Attendance - Classroom-Based	116.72	113.37

The Charter had no Nonclassroom-Based ADA in 2022-23.

AEROSTEM ACADEMY INC.
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2023

Grade Level	Minutes Requirement	2022-23 Instructional Minutes	2022-23 Number of Days	Status
Grade 5	54,000	56,525	175	Complied
Grade 6	54,000	56,525	175	Complied
Grade 7	54,000	56,525	175	Complied
Grade 8	54,000	56,525	175	Complied
Grade 9	64,800	66,500	175	Complied
Grade 10	64,800	66,500	175	Complied
Grade 11	64,800	66,500	175	Complied
Grade 12	64,800	66,500	175	Complied

See accompanying notes to supplementary information.

AEROSTEM ACADEMY INC.
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2023

June 30, 2023, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals)	<u>\$ 530,941</u>
Adjustments:	
Increase (decrease) in total net assets:	
Fair value adjustment to cash in county treasury	(36,324)
Record payments related to loan as interest expense	(28,500)
Record unspent state funding sources as conditional contributions	(289,134)
Understatement of other revenues	53,586
Understatement of other expenses	(40,385)
Unreconciled difference - expense abatement	<u>(115,815)</u>
Net adjustments	<u>(456,572)</u>
June 30, 2023, net assets per audited financial statements	<u>\$ 74,369</u>

See accompanying notes to supplementary information.

**AEROSTEM ACADEMY INC.
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

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 Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

C. Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered per grade level by the charter school and whether the charter school complied with the provisions of *Education Code Section 47612.5*.

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

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

OTHER INDEPENDENT AUDITORS' REPORTS

**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, 2023, 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 16, 2024. Our opinion on the financial statements was qualified because there was no reporting of FASB ASC 842 nor were there adequate controls over financial statement reporting related to reconciliation of an expense abatement account to sufficiently reduce the risk of material misstatement of the financial statements.

Report on 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2023-001 that we consider to be material weaknesses.

Report on 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*.

AeroSTEM Academy Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on AeroSTEM Academy Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs as the corrective action plan. The Charter's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 16, 2024

REPORT ON STATE COMPLIANCEIndependent Auditors' Report

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

Report on State Compliance**Opinion on State Compliance**

We have audited AeroSTEM Academy Inc.'s compliance with the requirements specified in the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to AeroSTEM Academy Inc.'s state program-requirements for the fiscal year ended June 30, 2023.

In our opinion, AeroSTEM Academy Inc. complied, in all material respects, with the laws and regulations of the applicable state programs for the year ended June 30, 2023, as identified in the table in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

Basis for Opinion on State Compliance

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 *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810 as regulations (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

We are required to be independent of AeroSTEM Academy Inc. and to meet certain ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on state compliance. Our audit does not provide a legal determination of AeroSTEM Academy Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of internal control over compliance with the requirements of the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to AeroSTEM Academy Inc.'s state programs.

Auditor’s Responsibilities for the Audit for State Compliance

Our objectives are to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on AeroSTEM Academy Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user of the report on compliance about AeroSTEM Academy Inc.'s compliance with the requirements of the applicable state programs as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the K-12 Audit Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding AeroSTEM Academy Inc.'s compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of AeroSTEM Academy Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the K-12 Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of AeroSTEM Academy Inc.'s internal control over compliance. Accordingly, no such opinion is expressed; and
- Select and test transactions and records to determine AeroSTEM Academy Inc.’s compliance with the state laws and regulations to the following items:

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	Not applicable
After/Before School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Not applicable
Transitional Kindergarten	Not applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	Not applicable
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

“Not applicable” is used in the table above to indicate that the charter school did not receive program funding or did not otherwise operate the program during the fiscal year.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies or material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of State Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

Christy White, Inc.

San Diego, California
January 16, 2024

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**AEROSTEM ACADEMY INC.
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2023**

Financial Statements

Type of auditors' report issued	<u>Qualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>Yes</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>
Any audit findings disclosed that are required to be reported in accordance with <i>2022-23 Guide for Annual Audits of California K-12 Local Education Agencies ?</i>	<u>No</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

All audit year findings, if any, are assigned an appropriate finding code as follows:

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**AEROSTEM ACADEMY INC.
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

FINDING 2023-001: FINANCIAL STATEMENT REPORTING (30000) – Material Weaknesses

Criteria: Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted accounting principles, which 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.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021. Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of any operating or finance lease. A right-of-use asset is an intangible asset that pertains to the lessee's right to occupy, operate, and hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

Condition: The Charter did not have adequate accounting controls in place. The financial statements required numerous audit adjustments, which entailed timely reconciliation of all balance sheet accounts. Material adjustments included:

- Reconciliation of cash balances for cash in county treasury and cash in banks. The original cash balance was overstated by over \$1.2 million.
- Reconciliation of accounts receivables, deferred revenue, and revenues. The original receivables balance was understated by more than \$341,000. The original deferred revenue balance was understated by more than \$171,000.
- Reconciliation of accounts payable and other liabilities. The original accounts payable balance was overstated by over \$145,000. The interest only payments on the loan were incorrectly reported as principal payments.
- The trial balance provided for audit included an unreconciled difference of \$115,855 that could not be explained or supported by management. This amount is reported as an expense abatement.

Additionally, Charter management had not determined the impact and did not reflect the significant change from this new accounting principle (FASB ASC 842) within its financial statements for the 2022-23 fiscal year.

Cause: Turnover in management and no accounting personnel involved in the accounting records for more than six months, including the year-end closing process. The Charter also ended its previous contract for back-office services and changed accounting software to the Escape county system. Additionally, management was not fully aware of the impact of the new lease standard.

Effect: Numerous audit adjustments were necessary. The financial statements are likely materially misstated with regards to the expense abatement or unreconciled balance and the unreported lease standard.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that management employ or contract with accounting personnel experienced in charter school accounting to ensure that the financial records are properly reconciled on a timely basis. Additionally, management should obtain and review all lease agreements and either work with a consultant or software specific to proper implementation of the lease standard.

Corrective Action Plan: Management consulted with a professional services company to assist in the accounting recordkeeping and reconciliation of AeroSTEM's accounts.

**AEROSTEM ACADEMY INC.
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

There were no audit findings and questioned costs related to state awards for the year ended June 30, 2023.

**AEROSTEM ACADEMY INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

This schedule presents the status of actions taken by the Charter on each of the findings and recommendations reported in the prior year audit; however, there were no audit findings reported in the year ended June 30, 2022.