



AEROSTEM ACADEMY INC.

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2024**

**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 Audit of the Financial Statements**Opinion**

We have audited the accompanying financial statements of AeroSTEM Academy Inc. which comprise the statement of financial position as of June 30, 2024, 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, the financial statements referred to above present fairly, in all material respects, the financial position of AeroSTEM Academy Inc. as of June 30, 2024, 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 Opinion

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 audit opinion.

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming AeroSTEM Academy Inc. will continue as a going concern. As discussed in Note 15 to the financial statements, AeroSTEM Academy Inc. has a negative net asset balance as of June 30, 2024. As a result, a substantial doubt exists about the entity's ability to continue as a going concern. Management evaluation of the events and conditions and management's plans regarding those matters are also described in Note 15. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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 as a whole 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the Local Education Agency Organization Structure but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2025, 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
March 5, 2025

AEROSTEM ACADEMY INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

Current assets	
Cash and cash equivalents	\$ 642,088
Accounts receivable	348,838
Total current assets	<u>990,926</u>
Noncurrent assets	
Deposits	2,500
Right-of-use asset	54,900
Capital assets, net	133,300
Total noncurrent assets	<u>190,700</u>
Total Assets	<u>\$ 1,181,626</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 165,967
Deferred revenue	497,084
Operating lease liability	54,900
Loan payable	527,500
Total liabilities	<u>1,245,451</u>
Net assets	
Without donor restrictions	<u>(63,825)</u>
Total net assets	<u>(63,825)</u>
Total Liabilities and Net Assets	<u>\$ 1,181,626</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, 2024

	Without Donor Restrictions
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 938,438
Federal revenues	161,417
Other state revenues	607,295
Total federal and state support and revenues	<u>1,707,150</u>
Local support and revenues	
Payments in lieu of property taxes	297,818
Program contract services	92,038
Gain on sale of fixed asset	12,641
Investment income, net	25,742
Other local revenues	29,905
Total local support and revenues	<u>458,144</u>
Total Support and Revenues	<u>2,165,294</u>
 EXPENSES	
Program services	1,653,227
Management and general	650,261
Total Expenses	<u>2,303,488</u>
 CHANGE IN NET ASSETS	(138,194)
 Net Assets - Beginning	<u>74,369</u>
 Net Assets - Ending	<u>\$ (63,825)</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, 2024

	Program Services	Management and General	Total
EXPENSES			
Personnel expenses			
Certificated salaries	\$ 568,360	\$ 153,817	\$ 722,177
Non-certificated salaries	96,284	128,506	224,790
Pension plan contributions	167,939	68,694	236,633
Payroll taxes	21,358	14,458	35,816
Other employee benefits	69,864	41,485	111,349
Total personnel expenses	923,805	406,960	1,330,765
Non-personnel expenses			
Books and supplies	189,944	8,172	198,116
Insurance	-	44,655	44,655
Facilities	254,236	3,070	257,306
Professional services	151,166	156,574	307,740
Depreciation	121,000	-	121,000
Fees to authorizing agency	-	12,209	12,209
Other operating expenses	13,076	18,621	31,697
Total non-personnel expenses	729,422	243,301	972,723
Total Expenses	\$ 1,653,227	\$ 650,261	\$ 2,303,488

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, 2024

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (138,194)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	121,000
Gain on fixed asset disposal	(12,641)
(Increase) decrease in operating assets	
Accounts receivable	(168,902)
Increase (decrease) in operating liabilities	
Accounts payable	52,443
Deferred revenue	198,530
Net cash provided by (used in) operating activities	<u>52,236</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of fixed asset	25,000
Purchase of capital assets	(116,067)
Net cash provided by (used in) investing activities	<u>(91,067)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on loans payable	(22,500)
Net cash provided by (used in) financing activities	<u>(22,500)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (61,331)

Cash and cash equivalents - Beginning 703,419

Cash and cash equivalents - Ending \$ 642,088

SUPPLEMENTAL DISCLOSURE

Cash paid for interest	<u>\$ -</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, 2024

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, 2024, 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 Investments

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

I. 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, 2024, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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.

K. 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.

L. 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.

M. 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.

N. Lease Arrangements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, a new lease standard effective no later than the fiscal year 2022-23. 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.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2024, consists of the following:

Cash in county treasury	\$ 661,436
County treasury fair value adjustment	(19,348)
Total Cash and Cash Equivalents	\$ 642,088

Cash in County Treasury

Policies and Practices

AeroSTEM Academy Inc. is a voluntary participant in an external investment pool. 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.

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:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 \$642,088 and an amortized book value of \$661,436 as of June 30, 2024.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury (continued)

Fair Value Measurement

Cash in county treasury is measured at Level 1 using the fair value input levels noted in Note 1N. 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, 2024, consists of the following:

Local control funding sources, state aid	\$	69,582
Federal sources		35,371
Other state sources		151,367
Other local sources		92,518
Total Accounts Receivable	\$	348,838

NOTE 4 – CAPITAL ASSETS

A summary of activity related to capital assets during the year ended June 30, 2024 consists of the following:

	July 1, 2023	Additions	Disposals	June 30, 2024
Property and equipment				
Building improvements	\$ 574,450	\$ -	\$ -	\$ 574,450
Transportation equipment	61,794	116,067	30,897	146,964
Total property and equipment	636,244	116,067	30,897	721,414
Less accumulated depreciation	(485,652)	(121,000)	(18,538)	(588,114)
Capital Assets, net	\$ 150,592	\$ (4,933)	\$ 12,359	\$ 133,300

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2024, consists of the following:

Vendor payables	\$	131,204
Due to grantor government		19,808
Accrued payroll expenses		14,955
Total Accounts Payable	\$	165,967

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 6 – DEFERRED REVENUE

Deferred revenue as of June 30, 2024, consists of unspent conditional contributions from the following sources:

Federal sources	\$ 33,960
State sources	463,124
Total Deferred Revenue	<u>\$ 497,084</u>

NOTE 7 – OPERATING LEASE

The Charter holds a lease agreement for the of modular buildings. The lease term ends January 2025. Total lease payments made during the year ended June 30, 2024 were \$109,800. No discount rate has been applied to the present value calculation of lease payments. The remaining lease payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Operating Lease Liability</u>	<u>Right-of-Use Asset</u>
2025	\$ 54,900	\$ 54,900
Total	<u>\$ 54,900</u>	<u>\$ 54,900</u>

NOTE 8 – LOAN PAYABLE

A summary of activity related to loans payable during the year ended June 30, 2024 consists of the following:

	<u>July 1, 2023</u>	<u>Draws</u>	<u>Payments</u>	<u>June 30, 2024</u>
Due to CORE Charter	\$ 550,000	\$ -	\$ 22,500	\$ 527,500
Total Loan Payable	<u>\$ 550,000</u>	<u>\$ -</u>	<u>\$ 22,500</u>	<u>\$ 527,500</u>

Due to CORE Charter

The Charter holds a loan due to CORE Charter for \$527,500 as of June 30, 2024. 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 in 2021-22 and a payment of \$22,500 in 2023-24. 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.

NOTE 9 – NET ASSETS

As of June 30, 2024, 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, 2024, the Charter's net assets without donor restrictions consist of the following:

Net investment in capital assets	\$ 133,300
Undesignated	(197,125)
Total Net Assets without Donor Restrictions	<u>\$ (63,825)</u>

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 10 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Charter’s financial assets as of June 30, 2024, 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	\$ 642,088
Accounts receivable	348,838
Contractual or donor-imposed restrictions	
Cash held for conditional contributions	<u>(497,084)</u>
Financial Assets available to meet cash needs	
for expenditures within one year	<u>\$ 493,842</u>

NOTE 11 – 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).

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 2023-24 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2023-24 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, 2024 was \$134,183; 100% of the required annual contribution.

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 \$48,340. The on-behalf payment amount is computed as the proportionate share of total 2022-23 State on-behalf contributions.

NOTE 11 – EMPLOYEE RETIREMENT PLANS (continued)

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 2023-24 was 26.68% 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, 2024 was \$54,110; 100% of the required annual contribution.

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 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, 2024 amounted to \$12,209.

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. The Charter does not currently intend to withdraw from CalSTRS or CalPERS. Refer to Note 11 for additional information on employee retirement plans.

AEROSTEM ACADEMY INC.
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2024

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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, 2024.

Facilities 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, 2024, a total of \$37,000 was made in lease payments. Future minimum lease payments are \$18,500 for the 2024-25 fiscal year.

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 8, the outstanding balance as of June 30, 2024 due from AeroSTEM Academy Inc. to CORE was \$527,500. The Charter made a total of \$22,500 in principal payments during the fiscal year ended June 30, 2024.

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 \$92,038 for the fiscal year ended June 30, 2024.

NOTE 14 – 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, 2024, the Charter did not receive any noncash donations.

NOTE 15 – GOING CONCERN / NEGATIVE NET ASSETS

At June 30, 2024, AeroSTEM Academy Inc.'s net asset balance was a deficit \$63,825. The negative net asset balance and a notice of concern subsequently issued from the authorizer key factors that raise substantial doubt about the Charter's ability to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Charter be unable to continue as a going concern.

Management's plans to mitigate the conditions and events that raise substantial doubt about the Charter's ability to continue as a going concern include plans include a projected enrollment increase from 100 to 120 students, while the school strategically shifts appropriate costs to restricted funds to optimize resources. Additionally, cost-saving measures include not filling a planned full-time teacher position for the 2024-25 school year and reducing one paraeducator, registrar, and attendance/health clerk position at mid-year. The Charter also transitioned from an in-house staff custodian to a custodial service to further streamline operations.

The Charter's ability to restore its net asset balance to a surplus is mainly dependent on its ability to be successful in management's plans; however, there have been no assurances that the Organization will be successful in its efforts.

NOTE 16 – SUBSEQUENT EVENTS

AeroSTEM Academy Inc. has evaluated subsequent events for the period from June 30, 2024 through March 5, 2025, the date the financial statements were available to be issued. In Fall 2024, a notice of concern was issued from the authorizer to the Charter regarding inaccuracies in financial reporting, especially as it relates to reporting of accurate cash balances. 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.
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2024

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.

	Second Period Report	Annual Report
	Classroom-Based	
Grade Span		
Regular		
Fourth through sixth	23.97	23.54
Seventh through eighth	41.88	41.94
Ninth through twelfth	29.58	28.80
Total Average Daily Attendance - Classroom-Based	95.43	94.28
Total Average Daily Attendance	95.43	94.28

The Charter had no Nonclassroom-Based ADA in 2023-24.

AEROSTEM ACADEMY INC.
SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2024

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*.

Grade Level	Instructional Minutes				Instructional Days				Status
	Annual Requirement	Annual Minutes	Credited Minutes*	Offered Minutes	Minimum Requirement	Annual Days	Credited Days*	Offered Days	
Grade 5	54,000	56,760	619	56,141	175	176	2	174	Complied
Grade 6	54,000	56,760	619	56,141	175	176	2	174	Complied
Grade 7	54,000	56,760	619	56,141	175	176	2	174	Complied
Grade 8	54,000	56,760	619	56,141	175	176	2	174	Complied
Grade 9	64,800	67,320	619	66,701	175	176	2	174	Complied
Grade 10	64,800	67,320	619	66,701	175	176	2	174	Complied
Grade 11	64,800	67,320	619	66,701	175	176	2	174	Complied
Grade 12	64,800	67,320	619	66,701	175	176	2	174	Complied

*The Charter received an approved Form J-13A for the number of instructional days and number of instructional minutes indicated above.

AEROSTEM ACADEMY INC.**RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL STATEMENTS****JUNE 30, 2024**

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.

June 30, 2024, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals) - Line F2	<u>\$ 326,917</u>
Adjustments:	
Increase (decrease) in total net assets:	
Beginning net assets - prior audit adjustments	(166,041)
Beginning net assets - other adjustments (client recorded)	801,601
Cash in county treasury	(660,578)
Fair value adjustment to cash in county treasury	16,976
Cash in banks	(121,087)
Accounts receivable	(188,368)
Due from grantor governments	7,333
Capital assets, net of accumulated depreciation	103,709
Due to grantor governments	98,694
Deferred revenue	(305,479)
Loans payable	22,500
Due to rounding	<u>(2)</u>
Net adjustments	<u>(390,742)</u>
June 30, 2024, net assets per audited financial statements	<u>\$ (63,825)</u>

OTHER INFORMATION

AEROSTEM ACADEMY INC.
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2024

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

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 2023-24, the Charter served approximately 107 students in grades 5 to 12.

BOARD OF DIRECTORS

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>
Tony Barber	President	June 30, 2024
Marvin King	Treasurer	June 30, 2024
June McJunkin	Authorizer Representative	June 30, 2024
Rikki Shaffer	Community Member	June 30, 2024
Jennifer Chaplin	Parent Member	June 30, 2024

ADMINISTRATION

Joseph Clark
Executive Director

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, 2024, and the related notes to the financial statements, which collectively comprise the Charter's financial statements and have issued our report thereon dated March 5, 2025.

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 2024-001 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.

A handwritten signature in blue ink that reads "Christy White, Inc." in a cursive script.

San Diego, California
March 5, 2025

**REPORT ON STATE COMPLIANCE AND ON INTERNAL CONTROL
OVER COMPLIANCE FOR STATE PROGRAMS**Independent 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 *2023-24 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, 2024.

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, 2024, 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 *2023-24 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.

Auditor's Responsibilities for the Audit for State Compliance (continued)

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	
Proposition 28 Arts and Music in Schools	Yes
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
Expanded Learning Opportunities Program	Yes
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
March 5, 2025

FINDINGS AND QUESTIONED COSTS SECTION

AEROSTEM ACADEMY INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued	<u>Unmodified</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>No</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>2023-24 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.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2024

PART II – FINANCIAL STATEMENT FINDINGS

FINDING 2024-001: 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.

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 \$764,689.
- Reconciliation of accounts receivables, deferred revenue, and revenues. The original receivables balance was overstated by \$181,034. The original deferred revenue balance was understated by \$305,479.
- Recording of fixed asset additions and disposals were incorrect with additions recorded as an expense and fixed assets not removed for disposal of equipment. The original net capital assets balance was understated by \$103,709.
- Reconciliation of accounts payable and other liabilities. The original accounts payable balance was overstated by \$98,694. The principal payments on the loan were incorrectly reported as an expense of \$22,500.
- Recording of the lease standard (FASB ASC 842) was not included in the financial statements. An audit adjustment to include a right-of-use asset and lease liability of \$54,900 for the remaining payments on the material modular lease were recorded. Other immaterial leases for facilities and copier equipment were not recorded.

Additionally, there was an unexplained variance on the unaudited actuals with reported ending fund balance/net position. Ending net assets on the balance sheet portion of the unaudited actuals (line K) was \$962,475 yet the income statement portion (line F2) reported ending net assets of \$326,917. Net adjustments impacting ending net assets as compared to the unaudited actuals line K totaled negative \$1,026,300 and negative \$390,742 when compared to line F2.

Cause: Inadequate controls over financial reporting. Double-entry bookkeeping was not properly applied for reporting of unaudited actuals.

Effect: Inaccurate financial reporting. Numerous audit adjustments to the financial statements were necessary.

Repeat Finding: This is a repeat finding. Refer to Finding 2023-001 in the summary of prior audit findings section.

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: AeroSTEM has contracted with a fiscal team to ensure financials are reported correctly going forward.

AEROSTEM ACADEMY INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, continued
FOR THE YEAR ENDED JUNE 30, 2024

PART III – STATE AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings and questioned costs related to state awards for the year ended June 30, 2024.

PART IV – SUMMARY OF PRIOR AUDIT FINDINGS

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

Summary: 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.

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.

Current Status: Not implemented. Refer to Finding 2024-001.