



Magnolia Public Schools

Finance/Audit Committee Meeting

Date and Time

Thursday December 8, 2016 at 6:30 PM

Location

MSA 6 3754 Dunn Drive Los Angeles, CA 90034

Regular Finance/Audit Committee Meeting

Access to the Board Meeting:

Any interested parties or community members may join from the place of the meeting or remotely by using the number provided below:

Dial: 1.844.572.5683

Code: 1948435

In compliance with the Americans with Disabilities Act (ADA) and upon request, Magnolia Public Schools may furnish reasonable auxiliary aids and services to qualified individuals with disabilities. Individuals who require appropriate alternative modification of the agenda in order to participate in committee meetings are invited to contact the MPS central office. If you need special assistance to attend the meeting or translation services, please notify Barbara Torres at (213) 628-3634 x100 to make arrangements and accommodate your disability.

Any public records relating to an agenda item for an open session of the Board which are distributed to all, or a majority of all, of the Board members shall be available for public inspection at 250 East 1st Street Ste 1500 Los Angeles, CA 90012.

Finance Committee Members:

Ms. Noel Russell-Unterburger, Chair

Mr. Serdar Orazov

CEO and Superintendent:

Dr. Caprice Young

Agenda

	Purpose	Presenter	Duration
I. Opening Items			
A. Call the Meeting to Order			
B. Record Attendance and Guests			
C. Public Comment			5
D. Approval of Agenda	Vote		1
E. Flag Salute			1
II. Action Items- Recommendation to Full Board			
A. Review and Approval of 2016 Financial Audit	Vote	Nanie Montijo	25
III. Closing Items			
A. Adjourn Meeting	Vote		

Coversheet

Review and Approval of 2016 Financial Audit

Section: II. Action Items- Recommendation to Full Board
Item: A. Review and Approval of 2016 Financial Audit
Purpose: Vote
Submitted by:
Related Material: MSA 1 12-2.pdf
MERF 12-2.pdf
MSA 3 12-2.pdf
MSA 4 12-2.pdf
MSA 5 12-2.pdf
MSA 6 12-2.pdf
MSA 2 12-2.pdf
MSA 7 12-2.pdf
MSA Bell 12-2.pdf
MSA SA 12-2.pdf
MSA SC 12-2.pdf
MSA SD 12-2.pdf

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board of Directors
Magnolia Science Academy
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy (MSA) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,403,525	\$ 1,737,714
Accounts receivable	853,258	440,019
Intra-company receivable	332,908	-
Prepaid expenses and other current assets	14,351	-
Total Current Assets	<u>2,604,042</u>	<u>2,177,733</u>
Non-Current Assets:		
Security deposits	39,035	39,035
Fixed assets	4,458,685	658,685
Less: accumulated depreciation	745,865	583,322
Total Non-Current Assets	<u>3,751,855</u>	<u>114,398</u>
Total Assets	<u>\$ 6,355,897</u>	<u>\$ 2,292,131</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 208,364	\$ 64,913
Intra-company payable	187,120	-
Total Current Liabilities	<u>395,484</u>	<u>64,913</u>
Long-Term Obligation		
Non-current portion of long-term obligations	2,800,000	-
Total Liabilities	<u>3,195,484</u>	<u>64,913</u>
NET ASSETS		
Unrestricted	3,160,413	2,227,218
Total Liabilities and Net Assets	<u>\$ 6,355,897</u>	<u>\$ 2,292,131</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY
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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 4,902,054	\$ 4,108,987
Federal revenue	673,666	600,269
Other State revenue	1,778,747	749,565
Local revenue	137,854	71,342
Total Revenues	<u>7,492,321</u>	<u>5,530,163</u>
EXPENSES		
Program services:		
Salaries and benefits	3,359,332	2,756,741
Student services	243,193	368,240
Materials and supplies	171,245	190,130
Student nutrition	270,203	264,309
Other expenses	133,304	29,459
Subtotal	<u>4,177,277</u>	<u>3,608,879</u>
Management and general:		
Depreciation	162,543	5,820
Management fee	915,722	1,013,451
Occupancy	620,993	676,885
Operating expenses	556,505	221,826
Interest	126,086	-
Subtotal	<u>2,381,849</u>	<u>1,917,982</u>
Total Expenses	<u>6,559,126</u>	<u>5,526,861</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>933,195</u>	<u>3,302</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,227,218</u>	<u>2,223,916</u>
NET ASSETS, END OF YEAR	<u>\$ 3,160,413</u>	<u>\$ 2,227,218</u>

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 933,195	\$ 3,302
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	162,543	5,820
Changes in operating assets and liabilities:		
Increase in assets		
Accounts receivable	(413,239)	583,204
Intra-company receivable	(332,908)	-
Prepaid expenses and other current assets	(14,351)	-
(Decrease) in liabilities		
Accounts payable and accruals	143,451	(232,740)
Intra-company payable	187,120	-
Net Cash Provided by Operating Activities	<u>665,811</u>	<u>359,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(3,800,000)</u>	<u>(21,298)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	<u>2,800,000</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	<u>(334,189)</u>	<u>338,288</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,737,714</u>	<u>1,399,426</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,403,525</u>	<u>\$ 1,737,714</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 126,086</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (Charter School) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 525 students. The Charter School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles Unified School District renewed the charter agreement in 2012 for a period of five years ending in 2017. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

MPM Sherman Way, LLC

The Foundation has the following consolidated affiliates (where the Foundation is the sole member) that were formed to provide assistance with funding capital improvement on behalf of the Foundation's activities. MPM Sherman Way LLC, a California limited liability company.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets, as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School are a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

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The Charter School have adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$162,543 and \$5,820, respectively.

Deferred Revenue

Deferred revenue arises when resources are received by the Charter School prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when the Charter School have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

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NOTES TO FINANCIAL STATEMENTS
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Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School' program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has \$120,912 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits				
Cash on hand and in banks	<u>\$ 1,403,525</u>	<u>\$ 1,405,726</u>	<u>\$ 1,737,714</u>	<u>\$ 1,924,499</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$1,381,366 and \$1,875,004, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
State principal apportionment	\$ 447,806	\$ 356,958
Due from other agencies	9,520	-
Federal receivable	204,868	54,892
State receivable	135,242	-
Lottery	55,822	-
Local receivable	-	28,169
Total Accounts Receivable	<u>\$ 853,258</u>	<u>\$ 440,019</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2016, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company receivable balance of \$332,908 from the Foundation.

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	\$ 53,386	\$ 39,035

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Building	\$ 2,800,000	\$ -
Software and equipment	283,867	283,867
Land	1,000,000	-
Building improvements	374,818	374,818
Subtotal	4,458,685	658,685
Less: accumulated depreciation	(745,865)	(583,322)
Total Fixed Assets	\$ 3,712,820	\$ 75,363

During the year ended June 30, 2016 and 2015, \$162,543 and \$5,820, respectively, was charged to depreciation expense.

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NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ 26,793	\$ 22,515
Compensated absences	26,405	-
Vendor payables	<u>155,166</u>	<u>42,398</u>
Total Accounts Payable	<u>\$ 208,364</u>	<u>\$ 64,913</u>

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2016, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company payable balance of \$187,120 from the Foundation.

NOTE 10 - NOTES PAYABLE

The Charter School entered into a promissory note agreement with Luxor Properties, Inc. and Michael William Spivak, to purchase the property located at 18220-18228 Sherman Way, Los Angeles, California. The Charter School received a loan in the amount of \$2,800,000. The loan bears an interest rate of 6.50 percent. The terms of the loan require monthly interest payments of \$15,667 for a 23-month period and the remaining principal balance on the final payment. The maturity date is November 1, 2017.

Future payments are as follows:

Fiscal Year Ending	Payments
<u>June 30,</u>	
2017	\$ 182,000
2018	<u>2,875,833</u>
Total Payments	3,057,833
Less: Amount Representing Interest	<u>(257,833)</u>
Total	<u>\$ 2,800,000</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - OPERATING LEASES

Magnolia Science Academy entered into a lease agreement with MPM Sherman Way, LLC on June 1, 2014, for the property located at 18238 Sherman Way, Reseda, California. Monthly payments in the amount of \$37,293 shall be made beginning in fiscal year 2014-2015. The term of the lease expires on July 1, 2034. The Charter School also leases its gymnasium under an operating lease until November 30, 2016, with monthly payment of \$12,126. Lease payments during 2015-2016 were \$488,509.

The future minimum lease commitments are as follows:

<u>Fiscal Year</u>	<u>Facility Lease Payment</u>
2017	\$ 447,516
2018	447,516
2019	447,516
2020	447,516
2021	447,516
Thereafter	<u>5,855,001</u>
Total	<u>\$ 8,092,581</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, were \$915,722 and \$1,013,451, respectively.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

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NOTES TO FINANCIAL STATEMENTS
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The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$219,771 and \$151,396, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$19,742 and \$26,917, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Academies. These payments consist of State General Fund contributions to CalSTRS in the amount of \$114,408 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between The Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$53,087 and \$49,680, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

Magnolia Science Academy has no outstanding claims or litigation.

NOTE 16 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial statements.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA will be ongoing and adhere to all Federal guidelines and State charter laws.

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy (Charter Number 0438) was granted on July 1, 2002, by the Los Angeles Unified School District. The Charter School operates one school, grades four through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	82.24	82.06
Seventh and eighth	175.16	174.41
Ninth through twelfth	261.36	260.27
Total Regular ADA	<u>518.76</u>	<u>516.74</u>
Classroom based ADA		
Sixth	82.24	82.06
Seventh and eighth	175.16	174.41
Ninth through twelfth	261.36	260.27
Total Classroom based ADA	<u>518.76</u>	<u>516.74</u>

The Charter School did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		66,512	180	N/A	Complied
Grade 7		66,512	180	N/A	Complied
Grade 8		66,512	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,512	180	N/A	Complied
Grade 10		66,512	180	N/A	Complied
Grade 11		66,512	180	N/A	Complied
Grade 12		66,512	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 3,197,834
Increase (Decrease) in:	
Intra-company receivable	332,908
Prepaid expenses and other current assets	(300,200)
Security deposits	39,035
(Increase) Decrease in:	
Accounts payable and accruals	77,956
Intra-company payable	<u>(187,120)</u>
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 3,160,413</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the schools operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy
(A California Nonprofit Public Benefit Corporation)
Reseda, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSA (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

DRAFT 12/02/2016

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA in a separate letter dated _____, 2016.

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

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on State Compliance

We have audited Magnolia Science Academy's (the Charter School) (A California Nonprofit Public Benefit Corporation) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Magnolia Science Academy's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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The Charter School does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Governing Board
Magnolia Science Academy
(A California Nonprofit Public Benefit Corporation)
Reseda, California

In planning and performing our audit of the financial statements of Magnolia Science Academy, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2016 on the financial statements of the Charter School.

Payroll

Observation

It was noted that an "employee" (Teacher) of the Charter School was paid outside of the payroll process as an "independent contractor" for a "home visit".

Recommendation

The Charter School should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultant contracts to ensure the staff is aware of the IRS regulations.

Corrective Action Plan

Accounting staff are aware that employees need to be paid through the payroll process and not through the disbursements process.

We will review the status of the current year comments during our next audit engagement.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates, which are comprised of the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MERF and affiliate's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MERF and affiliate's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

DRAFT 12/02/2016

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MERF and affiliates as of June 30, 2016, 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.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MERF's consolidated financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise MERF and affiliate's basic financial statements. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of MERF and affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MERF and affiliate's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,875,931	\$ 10,173,244
Restricted cash	6,327,515	998,292
Accounts receivable	4,317,399	4,170,911
Prepaid expenses and other current assets	141,671	29,854
Total Current Assets	<u>20,662,516</u>	<u>15,372,301</u>
Non-Current Assets:		
Debt issue costs, net	371,596	126,849
Security deposits	144,150	110,561
Fixed assets	23,391,744	10,716,608
Less: accumulated depreciation	2,338,891	1,795,398
Total Non-Current Assets	<u>21,568,599</u>	<u>9,158,620</u>
Total Assets	<u>\$ 42,231,115</u>	<u>\$ 24,530,921</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 3,117,074	\$ 2,569,245
Deferred revenue	507,918	445,725
Current portion of long-term obligations	190,871	244,392
Total Current Liabilities	<u>3,815,863</u>	<u>3,259,362</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	17,553,792	8,263,038
Total Liabilities	<u>21,369,655</u>	<u>11,522,400</u>
NET ASSETS		
Unrestricted	20,861,460	13,008,521
Total Liabilities and Net Assets	<u>\$ 42,231,115</u>	<u>\$ 24,530,921</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
REVENUES		
State apportionments	\$ 28,674,688	\$ 26,635,709
Federal revenue	2,983,400	2,425,080
Other State revenue	14,298,155	4,313,775
Rent revenue	447,511	447,519
Local revenue	1,358,287	535,375
Total Revenues	<u>47,762,041</u>	<u>34,357,458</u>
EXPENSES		
Program services:		
Salaries and benefits	24,182,556	19,967,246
Student services	2,028,885	2,190,954
Materials and supplies	1,237,521	985,129
Student nutrition	1,312,016	1,182,504
Other expenses	1,139,571	300,509
Subtotal	<u>29,900,549</u>	<u>24,626,342</u>
Management and general:		
Amortization	12,814	-
Depreciation	543,494	286,341
Management fee	642,960	-
Occupancy	1,785,885	2,669,178
Operating expenses	6,342,425	3,704,719
Interest	680,975	8,485
Subtotal	<u>10,008,553</u>	<u>6,668,723</u>
Total Expenses	<u>39,909,102</u>	<u>31,295,065</u>
CHANGE IN NET ASSETS	7,852,939	3,062,393
NET ASSETS, BEGINNING OF YEAR	<u>13,008,521</u>	<u>9,946,128</u>
NET ASSETS, END OF YEAR	<u>\$ 20,861,460</u>	<u>\$ 13,008,521</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 7,852,939	\$ 3,028,348
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	543,493	265,043
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(146,488)	539,884
Pledge receivable	-	150,000
Prepaid expenses and other current assets	(111,817)	(29,854)
Security deposits	(33,589)	162,823
Increase in liabilities		
Accounts payable and accruals	547,829	335,939
Deferred revenue	62,193	116,704
Net Cash Provided by Operating Activities	<u>8,714,560</u>	<u>4,568,887</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(12,675,136)</u>	<u>(5,148,217)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	(53,521)	114,163
Proceeds from long-term debt obligation	9,290,754	5,945,536
Cash restricted to meet debt obligation	(5,329,223)	(998,292)
Debt issue cost payments	<u>(244,747)</u>	<u>(126,849)</u>
Net Cash Provided by Financing Activities	<u>3,663,263</u>	<u>4,934,558</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>10,173,244</u>	<u>5,818,016</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 9,875,931</u>	<u>\$ 10,173,244</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 680,975</u>	<u>\$ 8,485</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION*Magnolia Educational & Research Foundation*

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2016, MERF operated eleven Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,420 students throughout California dedicated to inspiring students to choose career paths in science, technology, engineering, and math (STEM), while providing a robust, standards-based education program within a supportive culture of excellence.

To ensure students have the tools to succeed, the charter schools offer the following programs, which are mostly free of charge:

- Academic programs
- Student support programs
- After school programs
- Parent involvement programs

The charter schools operate under the approval of the California State Board of Education, Santa Clara County Office of Education, Los Angeles Unified School District and San Diego Unified School District. Each school receives public per-pupil funding from the State of California, in addition to grants from various government sources.

Other Related Entities*MPM Sherman Way, LLC*

Magnolia Educational & Research Foundation, (MERF), formed the MPM Sherman Way, LLC (the LLC) exclusively for the acquisition of property and assets of Magnolia Science Academy Charter Schools, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The Charter Schools makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA 1 Reseda Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MERF is the sole member of the LLC.

Joint Powers Agency and Risk Management Pools

Magnolia Science Academy Charter Schools are associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of MERF. Additional information is presented in Note 15 to the financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MERF are described below to enhance the use of the consolidated financial statements to the reader.

Financial Statement Presentation

MERF is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. MERF had no temporarily or permanently restricted net assets, as of June 30, 2016 and 2015, respectively. In addition, MERF is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or when the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions". MERF and the LLC had no temporarily or permanently restricted net assets at June 30, 2016 and 2015, respectively.

In-kind contributions are recorded at their estimated fair values at the date of donation. Donated services are recorded if they create or enhance non-financial assets or require a specialized skill that MERF would otherwise need to purchase. As of June 30, 2016 and 2015, respectively, no in-kind contributions of services were received.

Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which generally require revenue recognition upon incurrence of expenses related to the specified services. Deferred revenue is recorded to the extent cash received on specific grants exceeds qualified expenses.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
JUNE 30, 2016

Income Taxes

MERF is a nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as a public charity described in Section 509(a)(1) Type 1 supporting organizations and is exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The statute of limitations for Federal and California State purposes is generally three and four years, respectively.

MERF has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. MERF management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, MERF considers all highly liquid investments available for current use with an initial maturity of three months or less to be considered as cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management had determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by MERF Headquarters to each individual charter school and reimbursement for those resources from each individual charter school to MERF Headquarters.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$543,494 and \$286,341, respectively.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by MERF prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when MERF has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of MERF and the LLC.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MERF and the LLC do not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used. MERF and the LLC do not have permanently restricted net assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as designated assets until the funds are used for the purchase of the land and the construction of the facility. As of June 30, 2016 and 2015, the amount of restricted assets was \$5,934,155 and \$551,730, respectively. As of June 30, 2016, there was a designated balance of \$811,147 for California Clean Energy Jobs Act and Educator Effectiveness.

Prior Year Comparative Financial Information

The consolidated financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MERF's consolidated financial statements for the year ended June 30, 2015, from which the comparative information was derived.

Consolidation

The consolidated financial statements include the accounts of MERF, the LLC, and all MSA charter schools. All significant intra-company accounts and transactions have been eliminated in consolidation.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2016 and 2015, consisted of the following:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits				
Cash on hand and in banks	<u>\$ 9,660,499</u>	<u>\$ 10,098,608</u>	<u>\$ 10,002,410</u>	<u>\$ 11,540,537</u>

The majority of MERF's cash is held in bank accounts, which are subject to federally insured limits of \$250,000. MERF has not experienced any losses in such accounts. At June 30, 2016 and 2015, MERF had \$8,386,998 and \$9,470,685, respectively, in excess of FDIC insured limits in bank accounts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - RESTRICTED CASH

At June 30, 2016 and 2015, cash held for restricted purposes consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Bond reserve	\$ 446,563	\$ 446,563	\$ 446,563	\$ 446,563
Facility reserve	5,880,952	5,933,661	551,729	551,729
Current Restricted Cash	<u>\$ 6,327,515</u>	<u>\$ 6,380,224</u>	<u>\$ 998,292</u>	<u>\$ 998,292</u>

The majority of MERF's restricted cash is held in bank accounts, which are subject to federally insured limits of \$250,000. MERF has not experienced any losses in such accounts. At June 30, 2016 and 2015, MERF had \$6,235,953 and \$915,345, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 5 - INVESTMENTS

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

Magnolia Science Academy San Diego

Investment Type	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Treasury Investment Pool	\$ 68,077	\$ 68,100	\$ 102,156	\$ 102,103

Magnolia Science Academy Santa Ana

Investment Type	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Treasury Investment Pool	\$ 147,355	\$ 147,718	\$ 68,678	\$ 68,550

Deposits with county treasurer are an external investment pool sponsored by the County of San Diego and Orange, respectively. County deposits are not required to be categorized. The pools provided the fair value for these deposits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The charter schools do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The charter schools manage exposure to interest rate risk by investing in the County Pool.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MERF determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. MERF did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Magnolia Science Academy San Diego

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 68,100	270

Magnolia Science Academy Santa Ana

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 147,718	319

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Local Control Funding Formula	\$ 2,661,849	\$ 2,501,465
Federal receivable	682,725	556,876
State receivable	484,848	174,872
Due From LACOE	48,105	360,947
Local receivable	99,954	415,598
Lottery	339,918	161,153
Total Accounts Receivable	<u>\$ 4,317,399</u>	<u>\$ 4,170,911</u>

Revenue

MERF received 94 and 94 percent of its revenue in the form of fees and grants from government programs for the years ended June 30, 2016 and 2015, respectively. The balance due from those programs accounted for 96 and 96 percent of accounts receivable at June 30, 2016 and 2015, respectively. Without these sources of revenue, MERF would have difficulty maintaining its operations.

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 2,386,854	\$ 1,386,754
Building improvements	5,961,968	3,134,064
Leasehold improvements	384,879	402,722
Computer and equipment	2,618,137	1,962,040
Work in progress	12,039,906	3,831,028
Subtotal	23,391,744	10,716,608
Less: accumulated depreciation	<u>(2,338,891)</u>	<u>(1,795,398)</u>
Total Fixed Assets	<u>\$ 21,052,853</u>	<u>\$ 8,921,210</u>

During the years ended June 30, 2016 and 2015, \$543,294 and \$286,341, respectively, was charged to depreciation expense.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ 233,317	\$ 301,318
Compensated absences	196,523	-
Vendor payables	1,806,901	729,537
Due to other agencies	349,552	1,538,390
State principal apportionment	530,781	-
Total Accounts Payable and Accruals	<u>\$ 3,117,074</u>	<u>\$ 2,569,245</u>

NOTE 10 - DEFERRED REVENUE

Deferred revenue at June 30, 2016, consisted of the following:

	2016	2015
Federal sources	\$ -	\$ 354,000
State sources	507,918	91,725
Total Deferred Revenue	<u>\$ 507,918</u>	<u>\$ 445,725</u>

NOTE 11 - LONG-TERM OBLIGATIONS

At June 30, 2016, MERF's long-term obligations summary is as follows:

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016	Due in One Year
Bonds payable	\$ 6,020,000	\$ -	\$ 70,000	\$ 5,950,000	\$ 80,000
Revolving and CCSFP loans	2,400,841	6,666,290	116,666	8,950,465	66,673
Capital leases	86,589	-	42,391	44,198	-
Note payable	-	2,800,000	-	2,800,000	-
Total	<u>\$ 8,507,430</u>	<u>\$ 9,466,290</u>	<u>\$ 229,057</u>	<u>\$ 17,744,663</u>	<u>\$ 146,673</u>

California School Finance Authority (CSFA) School Facility Revenue Bonds

In June 2004, the CSFA issued \$6,020,000 in School Facilities Revenues, Series 2014A and Series 2014B for the purpose of a loan to MPM Sherman Way, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in August 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2016, the principal balance outstanding was \$5,950,000.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The bonds mature through 2045 as follows:

Repayment Year	Interest to		Total
	Principal	Maturity	
2017	\$ 80,000	\$ 360,088	\$ 440,088
2018	85,000	354,313	439,313
2019	90,000	348,188	438,188
2020	100,000	342,238	442,238
2021	105,000	336,681	441,681
2022-2026	110,000	331,038	441,038
2027-2031	645,000	1,557,969	2,202,969
2032-2036	850,000	1,339,438	2,189,438
2037-2041	1,145,000	1,040,469	2,185,469
2042-2044	1,555,000	625,156	2,180,156
2045	1,185,000	114,219	1,299,219
Total	<u>\$ 5,950,000</u>	<u>\$ 6,749,797</u>	<u>\$ 12,699,797</u>

Loans

Summarized below are MERF's loans at June 30, 2016:

	Balance			Balance June 30, 2016	Due in One Year
	July 1, 2015	Additions	Deductions		
MERF	\$ 83,333	\$ -	\$ 66,666	\$ 16,667	\$ 16,667
MSA 2	50,000	6	25,000	25,006	25,006
MSA SD	151,806	-	-	151,806	-
MSA SA (Revolving)	75,000	-	25,000	50,000	25,000
MSA SA (CCSFP)	2,040,702	6,666,284	-	8,706,986	-
Total	<u>\$ 2,400,841</u>	<u>\$6,666,290</u>	<u>\$ 116,666</u>	<u>\$ 8,950,465</u>	<u>\$ 66,673</u>

Magnolia Science Academy 2

Magnolia Science Academy 2 applied for, and was accepted into, the California School Finance Authority Charter School Revolving Loan Program. The Charter School received a loan in the amount of \$100,000. The loan bears an interest rate of 0.24 percent. The terms of the loan require four annual payments of \$25,000 over the next four years and are to be withheld from the apportionment payments. The maturity date is June 30, 2017.

Future payments are as follows:

Fiscal Year Ending	Payments
<u>June 30,</u>	
2017	<u>\$ 25,006</u>

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Magnolia Science Academy Santa Ana

Magnolia Science Academy Santa Ana received unsecured revolving loan payable to the California Department of Education totaling \$150,000 on November 30, 2012. The loan balance as of June 30, 2016, was \$75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from MSA SA's State School Fund Apportionments.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2017	\$ 25,000
2018	25,000
Total	<u>\$ 50,000</u>

Magnolia Science Academy Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSFP) for \$17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of \$17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of \$8,706,978 and the other 50 percent through a grant in the amount of \$8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2016, was \$8,706,986.

Magnolia Science Academy San Diego

Magnolia Science Academy San Diego has been approved by the State of California's Charter School Facilities Program (CCSFP) for \$3,036,122 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of \$3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of \$1,518,061 and the other 50 percent through a grant in the amount of \$1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA SD's State School Fund Apportionments. The outstanding loan balance as of June 30, 2016, was \$151,806.

Magnolia Educational & Research Foundation

In March 2010, the California Department of Education (CDE) awarded a \$250,000 loan to Pacific Technology School - Orangevale (CDS Code: 09-76596-0119529) for a five-year tenet through the Charter School Revolving Loan Fund Program (CSRLF). Effective July 1, 2013, Assembly Bill 86 (Chapter 48, Statutes of 2013) authorized the transfer of the administration of the Charter School Revolving Loan Fund from the CDE to the California School Finance Authority (Authority). The outstanding loan balance was \$16,667. The current portion of long-term obligation as of June 30, 2016, is \$16,667.

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Pacific Technology School Orangevale Closure

Pacific Technology School - Orangevale (PTS - Orangevale) closed in June 2013. Due to the closure, the school was unable to pay their fourth year through the intercept based on the original agreement. To repay the PTS - Orangevale revolving loan, MERF has been in communication with the California School Finance Authority to arrange a payment schedule of the remaining loan totaling \$100,000. The repayment schedule will be in accordance with the documentation provided by the California School Finance Authority, and will include 18 monthly payments of \$5,593 that include principal and interest.

Capital Leases

Chrome Books

MSA SC entered into a capital lease to purchase 450 Chrome Books for \$128,744. The terms of the loan require 36 monthly payments of \$4,276 with an interest rate of 8.00 percent and a maturity date of June 30, 2017. The balance outstanding as of June 30, 2016, is \$44,198. The current portion of the long-term obligation is \$44,198.

Note Payable

Magnolia Science Academy

MSA entered into a promissory note agreement with Luxor Properties, Inc. and Michael William Spivak, to purchase the property located at 18220-18228 Sherman Way, Los Angeles, California. MSA 1 received a loan in the amount of \$2,800,000. The loan bears an interest rate of 6.50 percent. The terms of the loan require monthly interest payments of \$15,667 for a 23-month period and the remaining principal balance on the final payment. The maturity date is November 1, 2017.

Future payments are as follows:

Fiscal Year Ending	Payments
<u>June 30,</u>	
2017	\$ 182,000
2018	<u>2,875,833</u>
Total Payments	3,057,833
Less: Amount Representing Interest	<u>(257,833)</u>
Total	<u>\$ 2,800,000</u>

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NOTE 12 - FACILITIES USES AGREEMENTS/OPERATING LEASES

Total rental and facility expenses were \$2,428,940 for year ended June 30, 2016, for the sole purpose of operating the Charter Schools' education programs, related Charter Schools' activities. Future rental and facility expenses are as follows:

Fiscal Year Ending	Future Lease Commitments
2017	\$ 1,921,420
2018	609,216
2019	614,616
2020	620,116
2021	626,116
Thereafter	6,197,601
Total	<u>\$ 10,589,085</u>

NOTE 13 - FAIR VALUE FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of MERF financial instruments as of June 30, 2016 are as follows:

	June 30, 2016		June 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 9,875,931	\$ 9,876,317	\$ 10,173,244	\$ 10,173,244
Restricted cash and cash equivalents	6,327,515	6,327,515	998,292	998,292
Revolving and CCSF loans	8,950,465	8,950,465	8,950,465	8,950,465
Notes payable	2,800,000	2,800,000	-	-
Bonds payable	5,950,000	5,950,000	6,020,000	6,020,000
Capital leases	44,198	44,198	86,589	86,589

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

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The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if Magnolia Science Academy charter schools chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. Magnolia Science Academy charter schools has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

Magnolia Science Academy charter schools contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. Magnolia Science Academy charter schools did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

Magnolia Science Academy charter schools contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and Magnolia Science Academy charter schools' total contributions were \$1,322,909 and 1,001,799, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. Magnolia Science Academy charter schools did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

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Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Magnolia Science Academy charter schools is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the years ended June 30, 2016 and 2015, respectively, are presented above and the total Charter School contributions were \$169,607 and \$94,508, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Magnolia Science Academy charter schools. These payments consist of State General Fund contributions to CalSTRS in the amount of \$818,253 (7.12589 percent of Magnolia Science Academy charter schools' 2012-2013 creditable compensation subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

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NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

Magnolia Science Academy Charter Schools are participants in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MERF and CharterSAFE is such that CharterSAFE is not considered a component unit of MERF for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and Magnolia Science Academy Charter Schools are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2016 and 2015, Magnolia Science Academy Charter Schools made payments of \$325,230 and \$344,113, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - CONTINGENCIES

MERF 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 disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 17 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements from the balance sheet date through _____, 2016, which is the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year consolidated financial statements.

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA will be ongoing and adhere to all Federal guidelines and State charter laws.

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On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA 2 as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA 2, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA 2 will be ongoing and adhere to all Federal guidelines and State charter laws.

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA 3 as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA 3, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA 3 will be ongoing and adhere to all Federal guidelines and State charter laws.

On July 1, 2016, the Magnolia Educational Research Foundation voted to close MSA Santa Clara as of June 30, 2016. Management has implemented procedures as required in accordance with the California *Education Code* for the closeout of a charter school.

NOTE 18 - CLOSEOUT PROCEDURES

On July 1, 2016, the board of the Magnolia Educational and Research Foundation (MERF) voted to close the Magnolia Science Academy Santa Clara Charter School (MSA Santa Clara), effective, June 30, 2016, due to fiscal concerns. MERF acting as MSA Santa Clara's management organization (CMO) will be the responsible party for handling MSA Santa Clara closure. As part of the final audit, MSA Santa Clara is required to determine the net assets or liabilities and disclose required information.

1. MSA SC has an operating deficit of \$(1,230,117) in the 2015-2016 year and an overall deficit of \$(730,580) as of June 30, 2016;
2. MSA SC has outstanding restricted funds due back to government agencies in the amount of \$364,493;
3. MERF has inventoried and assigned a fair market value to all MSA SC usable furnishings, equipment, and supplies and has, as per MERF Board approval, redistributed all usable furnishings, equipment, and supplies to other charter schools operated by MERF's corporation; the receiving charter schools have paid the fair market value MSA SC for receipt of all usable furnishings, equipment, and supplies it has received;
4. No donated materials and property were required to be returned;
5. All grants and restricted categorical funds have been identified and returned to their source according to the terms of the grant or state and federal law;
6. MERF has prepared and submitted final expenditure reports for any entitlement grants and has filed Final Expenditure Reports and Final Performance Reports, as appropriate;
7. A formal plan to resolve the transferring of all remaining assets and liabilities of MSA SC will be completed during 2016-2017, to transfer available surplus reserves not restricted to absorb the overall deficit related to legitimate educational and operational expenses incurred in closing of this charter school, The Charter School's bank accounts for MSA SC were closed with approximately \$5,000 being transferred into MERF's main account;
8. Remaining loan agreements were assigned to MERF and any additional cost incurred subsequently will be recorded in MERF's financial records;

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9. MERF is a solvent continuing nonprofit entity operating other charter schools and will not have another charter school, legal entity, or the Board of Directors, or another individual assume liabilities of MSA SC;
10. Student and Employee records maintenance has been completed in accordance with required laws and *Education Code*.

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SUPPLEMENTARY INFORMATION

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA):			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 572,235
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	1,085,025
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	17,058
Title III Cluster:			
Title III, Immigrant Education Program	84.365	15146	20,929
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	44,844
Total Title III Cluster			<u>65,773</u>
Title V, Part B - Public Charter Schools Grant Program	84.282	14531	292,645
State Charter School Facilities Incentive Grants	84.242D	[1]	203,452
Total U.S. Department of Education			<u>2,236,188</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	212,766
National School Lunch Program	10.555	13524	531,916
Total U.S. Department of Agriculture			<u>744,682</u>
Total Federal Programs			<u>\$ 2,980,870</u>

See accompanying note to supplementary information.

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LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2016

ORGANIZATION

MERF operates eleven schools in California under eleven charters. Each school is operated on the same tax identification number as MERF. Charters were granted for each school for up to five years, with an opportunity for renewal. Charters may be revoked by the charter authorizer for material violations of the charter, failure to meet or make progress toward student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. As of June 30, 2016, the charter schools operated by MERF were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Number of Students Served
Magnolia Science Academy	0438	Los Angeles USD	June 30, 2017	6-12	525
Magnolia Science Academy 2	0906	Los Angeles USD	June 30, 2017	6-12	475
Magnolia Science Academy 3	0917	Los Angeles USD	June 30, 2017	6-12	445
Magnolia Science Academy 4	0986	Los Angeles USD	June 30, 2018	6-12	180
Magnolia Science Academy 5	0987	Los Angeles USD	June 30, 2018	6-12	150
Magnolia Science Academy 6	0988	Los Angeles USD	June 30, 2019	6-8	175
Magnolia Science Academy 7	0989	Los Angeles USD	June 30, 2019	K-5	290
Magnolia Science Academy Bell	1236	Los Angeles USD	June 30, 2020	6-8	495
Magnolia Science Academy San Diego	0698	San Diego USD	June 30, 2020	6-8	420
Magnolia Science Academy Santa Ana	1686	CDE	June 30, 2019	K-12	165
Magnolia Science Academy Santa Clara	1116	Santa Clara COE	June 30, 2018	6-12	100

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer
See accompanying note to supplementary information.	

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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
ASSETS							
Current Assets:							
Cash and cash equivalents	\$ 82,468	\$ 1,403,525	\$ 974,391	\$ 363,932	\$ 494,503	\$ 728,184	\$ 535,854
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Accounts receivable	98,615	853,258	433,591	534,302	198,718	277,438	297,410
Intra-company receivable	2,555,550	332,908	126,413	348,184	203,328	206,150	300,000
Prepaid expenses and other current assets	40,728	14,351	10,859	10,967	5,624	1,232	3,835
Total Current Assets	2,777,361	2,604,042	1,545,254	1,257,385	902,173	1,213,004	1,137,099
Non-Current Assets:							
Debt issue cost, net	-	-	-	-	-	-	-
Security deposits	17,525	39,035	-	-	-	-	-
Fixed assets	134,513	4,458,685	374,363	221,439	164,670	111,918	148,877
Less: accumulated depreciation	115,350	745,865	190,348	139,895	100,526	105,008	82,477
Total Non-Current Assets	36,688	3,751,855	184,015	81,544	64,144	6,910	66,400
Total Assets	\$ 2,814,049	\$ 6,355,897	\$ 1,729,269	\$ 1,338,929	\$ 966,317	\$ 1,219,914	\$ 1,203,499
LIABILITIES							
Current Liabilities:							
Accounts payable and accruals	\$ 582,797	\$ 208,364	\$ 245,448	\$ 243,954	\$ 141,922	\$ 128,016	\$ 136,224
Intra-company payable	2,187,787	187,120	317,863	119,551	161,905	14,383	110,010
Deferred revenue	-	-	-	-	-	-	-
Current portion of long-term obligations	16,667	-	25,006	-	-	-	-
Total Current Liabilities	2,787,251	395,484	588,317	363,505	303,827	142,399	246,234
Long-Term Obligations:							
Non-current portion of long-term obligations	-	2,800,000	-	-	-	-	-
Total Liabilities	2,787,251	3,195,484	588,317	363,505	303,827	142,399	246,234
NET ASSETS							
Unrestricted	26,798	3,160,413	1,140,952	975,424	662,490	1,077,515	957,265
Designated	-	-	-	-	-	-	-
Total Net Assets	26,798	3,160,413	1,140,952	975,424	662,490	1,077,515	957,265
Total Liabilities and Net Assets	\$ 2,814,049	\$ 6,355,897	\$ 1,729,269	\$ 1,338,929	\$ 966,317	\$ 1,219,914	\$ 1,203,499

See accompanying note to supplementary information.

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MSA-7	MSA-Bell	MSA-SD	MSA-SA	MSA-SC	LLC	Elimination	Total	Memo 2015 Total
\$ 914,277	\$ 2,029,820	\$ 761,775	\$ 170,647	\$ 31,093	\$ 1,385,462	\$ -	\$ 9,875,931	\$ 10,173,244
-	-	106,607	5,774,345	-	446,563	-	6,327,515	998,292
372,498	479,912	308,121	213,512	250,024	-	-	4,317,399	4,170,911
112,514	612,759	10,064	2,759	20,440	-	(4,831,069)	-	-
28,109	12,091	8,521	5,354	-	-	-	141,671	29,854
<u>1,427,398</u>	<u>3,134,582</u>	<u>1,195,088</u>	<u>6,166,617</u>	<u>301,557</u>	<u>1,832,025</u>	<u>(4,831,069)</u>	<u>20,662,516</u>	<u>15,372,301</u>
-	-	-	-	-	371,596	-	371,596	126,849
4,000	-	-	27,000	56,590	-	-	144,150	110,561
122,900	202,508	644,168	12,030,297	256,588	4,520,818	-	23,391,744	10,716,608
84,099	61,812	302,836	128,715	121,238	160,722	-	2,338,891	1,795,398
42,801	140,696	341,332	11,928,582	191,940	4,731,692	-	21,568,599	9,158,620
<u>\$ 1,470,199</u>	<u>\$ 3,275,278</u>	<u>\$ 1,536,420</u>	<u>\$ 18,095,199</u>	<u>\$ 493,497</u>	<u>\$ 6,563,717</u>	<u>\$ (4,831,069)</u>	<u>\$ 42,231,115</u>	<u>\$ 24,530,921</u>
\$ 389,849	\$ 196,893	\$ 190,591	\$ 201,105	\$ 451,911	\$ -	\$ -	\$ 3,117,074	\$ 2,569,245
132,998	74,210	19,442	776,832	728,968	-	(4,831,069)	-	-
-	-	-	61,355	-	446,563	-	507,918	445,725
-	-	-	25,000	44,198	80,000	-	190,871	244,392
<u>522,847</u>	<u>271,103</u>	<u>210,033</u>	<u>1,064,292</u>	<u>1,225,077</u>	<u>526,563</u>	<u>(4,831,069)</u>	<u>3,815,863</u>	<u>3,259,362</u>
-	-	151,806	8,731,986	-	5,870,000	-	17,553,792	8,263,038
<u>522,847</u>	<u>271,103</u>	<u>361,839</u>	<u>9,796,278</u>	<u>1,225,077</u>	<u>6,396,563</u>	<u>(4,831,069)</u>	<u>21,369,655</u>	<u>11,522,400</u>
947,352	3,004,175	1,174,581	8,298,921	(731,580)	167,154	-	20,861,460	12,010,229
-	-	-	-	-	-	-	-	998,292
<u>947,352</u>	<u>3,004,175</u>	<u>1,174,581</u>	<u>8,298,921</u>	<u>(731,580)</u>	<u>167,154</u>	<u>-</u>	<u>20,861,460</u>	<u>13,008,521</u>
<u>\$ 1,470,199</u>	<u>\$ 3,275,278</u>	<u>\$ 1,536,420</u>	<u>\$ 18,095,199</u>	<u>\$ 493,497</u>	<u>\$ 6,563,717</u>	<u>\$ (4,831,069)</u>	<u>\$ 42,231,115</u>	<u>\$ 24,530,921</u>

MAGNOLIA PUBLIC SCHOOLS
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2016

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
CHANGES IN UNRESTRICTED NET ASSETS							
REVENUES							
State apportionments	\$ -	\$ 4,902,054	\$ 4,104,344	\$ 4,024,495	\$ 1,634,775	\$ 1,245,541	\$ 1,415,790
Federal revenue	-	673,666	242,928	449,664	227,541	218,990	137,157
Other State revenue	-	1,778,747	734,177	979,204	328,641	270,288	387,689
Rent revenue	-	-	-	-	-	-	-
Local revenue	5,853,081	137,854	121,543	96,494	89,919	14,618	38,359
Total Revenues	5,853,081	7,492,321	5,202,992	5,549,857	2,280,876	1,749,437	1,978,995
EXPENSES							
Program services:							
Salaries and benefits	3,063,199	3,359,332	2,633,051	2,983,579	1,099,403	885,733	843,832
Student services	-	243,193	235,108	422,937	159,500	162,880	74,310
Materials and supplies	17,167	171,245	277,624	3,053	111,372	16,125	55,947
Student nutrition	34,328	270,203	53,394	346,028	47,129	51,935	51,330
Other expenses	90,373	133,304	137,503	126,013	29,526	28,553	57,410
Subtotal	3,205,067	4,177,277	3,336,680	3,881,610	1,446,930	1,145,226	1,082,829
Management and general:							
Amortization	-	-	-	-	-	-	-
Depreciation	7,666	162,543	50,973	11,665	9,366	13,602	19,778
Management fee	-	915,722	1,145,791	873,103	342,757	142,214	167,776
Occupancy	194,984	620,993	11,179	225,343	145,840	100,264	109,407
Operating expenses	2,453,803	556,505	511,533	379,541	140,313	125,888	116,497
Debt service	-	-	-	-	-	-	-
Interest	406	126,086	143	-	-	-	-
Subtotal	2,656,859	2,381,849	1,719,619	1,489,652	638,276	381,968	413,458
Total Expenses	5,861,926	6,559,126	5,056,299	5,371,262	2,085,206	1,527,194	1,496,287
CHANGE IN UNRESTRICTED NET ASSETS	(8,845)	933,195	146,693	178,595	195,670	222,243	482,708
NET ASSETS (DEFICIT,							
BEGINNING OF YEAR	35,643	2,227,218	994,259	796,829	466,820	855,272	474,557
NET ASSETS, END OF YEAR	\$ 26,798	\$ 3,160,413	\$ 1,140,952	\$ 975,424	\$ 662,490	\$ 1,077,515	\$ 957,265

See accompanying note to supplementary information.

DRAFT 12/02/2016

MSA-7	MSA-Bell	MSA-SD	MSA-SA	MSA-SC	LLC	Elimination	Total	Memo 2015 Total
\$ 2,384,759	\$ 4,186,383	\$ 2,888,409	\$ 1,178,240	\$ 709,898	\$ -	\$ -	\$ 28,674,688	\$ 26,635,709
243,652	300,266	97,228	364,623	27,685	-	-	2,983,400	2,425,080
808,969	936,594	602,791	7,070,882	400,173	-	-	14,298,155	4,313,775
-	-	-	-	-	447,511	-	447,511	447,519
77,755	124,582	84,976	47,229	5,197	-	(5,333,320)	1,358,287	535,375
3,515,135	5,547,825	3,673,404	8,660,974	1,142,953	447,511	(5,333,320)	47,762,041	34,357,458
1,710,538	3,095,595	1,985,116	1,239,163	1,284,015	-	-	24,182,556	19,967,246
184,561	198,391	128,325	127,714	91,966	-	-	2,028,885	2,190,954
77,871	151,337	172,634	169,969	13,177	-	-	1,237,521	985,129
149,306	181,371	44,650	68,807	13,535	-	-	1,312,016	1,182,504
79,655	196,162	105,525	49,339	106,208	-	-	1,139,571	300,509
2,201,931	3,822,856	2,436,250	1,654,992	1,508,901	-	-	29,900,549	24,626,342
-	-	-	-	-	12,814	-	12,814	-
25,027	44,395	44,619	33,848	39,651	80,361	-	543,494	286,341
545,689	1,000,958	334,759	60,000	-	-	(4,885,809)	642,960	-
280,315	-	305	229,754	315,012	-	(447,511)	1,785,885	2,669,178
352,323	552,106	318,845	325,565	509,506	-	-	6,342,425	3,704,719
-	-	-	-	-	554,340	-	554,340	-
-	-	-	-	-	-	-	126,635	8,485
1,203,354	1,597,459	698,528	649,167	864,169	647,515	(5,333,320)	10,008,553	6,668,723
3,405,285	5,420,315	3,134,778	2,304,159	2,373,070	647,515	(5,333,320)	39,909,102	31,295,065
109,850	127,510	538,626	6,356,815	(1,230,117)	(200,004)	-	7,852,939	3,062,393
837,502	2,876,665	635,955	1,942,106	498,537	367,158	-	13,008,521	9,946,128
\$ 947,352	\$ 3,004,175	\$ 1,174,581	\$ 8,298,921	\$ (731,580)	\$ 167,154	\$ -	\$ 20,861,460	\$ 13,008,521

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

COMPARATIVE STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 82,468	\$ 184,383
Accounts receivable	98,615	-
Intra-company receivable	2,555,550	1,093,266
Prepaid expenses and other current assets	40,728	-
Total Current Assets	<u>2,777,361</u>	<u>1,277,649</u>
Non-Current Assets:		
Security deposits	17,525	1,525
Fixed assets	134,513	134,513
Less: accumulated depreciation	<u>115,350</u>	<u>107,684</u>
Total Non-Current Assets	<u>36,688</u>	<u>28,354</u>
Total Assets	<u>\$ 2,814,049</u>	<u>\$ 1,306,003</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 582,797	\$ 200,348
Intra-company payable	2,187,787	897,894
Deferred revenue	-	88,785
Current portion of long-term obligation	<u>16,667</u>	<u>66,666</u>
Total Current Liabilities	<u>2,787,251</u>	<u>1,253,693</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>-</u>	<u>16,667</u>
Total Liabilities	<u>2,787,251</u>	<u>1,270,360</u>
NET ASSETS		
Unrestricted	<u>26,798</u>	<u>35,643</u>
Total Liabilities and Net Assets	<u>\$ 2,814,049</u>	<u>\$ 1,306,003</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

COMPARATIVE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Local revenue	\$ 5,853,081	\$ 4,812,297
EXPENSES		
Program services:		
Salaries and benefits	3,063,199	1,490,317
Student services	-	29,922
Materials and supplies	17,167	29,191
Student nutrition	34,328	6,251
Other expenses	90,373	44,863
Subtotal	<u>3,205,067</u>	<u>1,600,544</u>
Management and general:		
Depreciation	7,666	36,278
Occupancy	194,984	154,681
Operating expenses	2,453,803	1,432,967
Interest	406	3,685
Subtotal	<u>2,656,859</u>	<u>1,627,611</u>
Total Expenses	<u>5,861,926</u>	<u>3,228,155</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(8,845)</u>	<u>1,584,142</u>
NET ASSETS, BEGINNING OF YEAR	<u>35,643</u>	<u>(1,548,499)</u>
NET ASSETS, END OF YEAR	<u>\$ 26,798</u>	<u>\$ 35,643</u>

MAGNOLIA PUBLIC SCHOOLS
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

COMPARATIVE STATEMENT OF CASH FLOWS
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	\$ (8,845)	\$ 1,584,142
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	7,666	36,278
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(98,615)	193,451
Intra-company receivable	(1,462,284)	(2,365,516)
Prepaid expenses and other current assets	(40,728)	(34,045)
Security deposits	(16,000)	-
Increase (Decrease) in liabilities		
Accounts payable and accruals	382,449	(177,792)
Intra-company payable	1,289,893	897,894
Deferred revenue	(88,785)	(55,052)
Net Cash Used by Operating Activities	<u>(35,249)</u>	<u>79,360</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>-</u>	<u>(19,887)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds	(66,666)	66,666
Loan principal payments	<u>-</u>	<u>16,667</u>
Net Cash Provided (Used) by Financing Activities	<u>(66,666)</u>	<u>83,333</u>
NET DECREASE IN CASH	<u>(101,915)</u>	<u>142,806</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>184,383</u>	<u>41,577</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 82,468</u>	<u>\$ 184,383</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 406</u>	<u>\$ 3,685</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTE TO SUPPLEMENTARY INFORMATION**
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES**Schedule of Expenditures of Federal Awards**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Magnolia Science Academy charter schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Magnolia Science Academy charter schools have not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Local Education Agency Organization Structure

This schedule provides information about the charter schools operated, members of the governing board, and members of the administration.

Consolidating Statements

The accompanying consolidating financial statements report the individual programs of MERF and are presented on the accrual basis of accounting. Eliminating entries in the consolidated financial statements are due to rent payments between the LLC and MSA 1 and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise MERF and affiliate's consolidated financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

DRAFT 12/02/2016

Compliance and Other Matters

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

We noted certain matters that we reported to management of MERF and affiliates in a separate letter dated _____, 2016.

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

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates, major Federal programs for the year ended June 30, 2016. MERF and affiliate's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MERF's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about MERF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of MERF's compliance.

DRAFT 12/02/2016

Opinion on Each Major Federal Program

In our opinion, MERF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of MERF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MERF's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MERF's 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 Federal 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 Federal 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 Federal 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>

Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
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Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
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Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.01</u>	<u>Title I, Part A, Basic Grants Low</u>
<u>10.553 and 10.555</u>	<u>Income and Neglected</u>
	<u>Title I, Part A, Basic Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Westminster, California

In planning and performing our audit of the financial statements of Magnolia Educational & Research Foundation (MERF) for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2016 on the financial statements of MERF.

MSA 1 - Payroll

Observation

It was noted that an "employee" (Teacher) of the Charter School was paid outside of the payroll process as an "independent contractor" for a "home visit".

Recommendation

The Charter School should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultant contracts to ensure the staff is aware of the IRS regulations.

Corrective Action Plan

Accounting staff are aware that employees need to be paid through the payroll process and not through the disbursements process.

MSA 3 - Cash Collections

Observation

Teachers collecting funds at the Charter School do not use triplicate, pre-numbered receipt, logs, tally sheets or any sort of adequate cash collection backup.

Recommendation

It is recommended that the Charter School use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure. Two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are to be provided to the front office along with funds receipted.

Corrective Action Plans

The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

MSA 3 - Cash Disbursements*Observation*

It was noted that an "employee" of the charter school was paid outside of the payroll process as an "independent contractor" for "referee services".

Recommendation

The Charter School should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultation contracts to ensure the staff is aware of the IRS regulations. In addition, the charter school should perform a review of the procedures for determining who receives a Form 1099 to ensure all 1099's are properly issued.

Corrective Action Plan

Accounting staff is aware that employees are to be paid through the payroll process and not through the disbursements process.

MSA 4 - Cash Collections*Observation*

Cash collections are not all being receipted or logged at the time collection.

Recommendation

To strengthen the procedures over cash collections, all cash should be verified and receipted at the time of or very soon after the money is collected. This procedure prevents and avoids any dispute over the amount of cash submitted by the person turning in the funds to the office. The immediate receipting process is also a tool to reconcile the cash awaiting deposit to the receipts issued since the last deposit. The current system would not disclose that funds have been misplaced or stolen since the cash on hand at the date of the deposit would be the only funds receipted.

Corrective Action Plan**MSA Bell - Cash Collections***Observation*

Teachers collecting funds at the Charter School do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup. Additionally, cash count sheets are not consistently being signed by a reviewer.

Recommendation

It is recommended that the Charter School use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds receipted.

Corrective Action Plans

The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

MSA Santa Ana - Attendance*Observation*

We were unable to locate Independent Study contracts for students who had received apportionment attendance credit for completing the program.

Governing Board
Magnolia Educational & Research Foundation

DRAFT 12/02/2016

Recommendation

The written agreement is the basic and initial document for earning apportionment attendance credit. The site can only claim apportionment credit for an independent study student when there is a properly completed written agreement on file. The site should be instructed to locate the missing contracts, if they cannot be found, the apportionment attendance for these students must be deducted from the attendance reports filed and the reports amended.

Corrective Action Plans

We will review the status of the current year comments during our next audit engagement.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 3 (MSA 3) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

DRAFT 12/02/2016

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 3, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA 3's consolidated financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 3's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 3's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 363,932	\$ 183,685
Accounts receivable	534,302	360,992
Intra-company receivable	348,184	307,336
Prepaid expenses and other current assets	10,967	-
Total Current Assets	<u>1,257,385</u>	<u>852,013</u>
Non-Current Assets:		
Fixed assets	221,439	136,648
Less: accumulated depreciation	139,895	128,230
Total Non-Current Assets	<u>81,544</u>	<u>8,418</u>
Total Assets	<u>\$ 1,338,929</u>	<u>\$ 860,431</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 243,954	\$ 63,602
Intra-company payable	119,551	-
Total Current Liabilities	<u>363,505</u>	<u>63,602</u>
NET ASSETS		
Unrestricted	975,424	796,829
Total Liabilities and Net Assets	<u>\$ 1,338,929</u>	<u>\$ 860,431</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 4,024,495	\$ 3,406,316
Federal revenue	449,664	490,995
Other State revenue	979,204	580,951
Local revenue	96,494	16,668
Total Revenues	<u>5,549,857</u>	<u>4,494,930</u>
EXPENSES		
Program services:		
Salaries and benefits	2,983,579	2,345,482
Student services	422,937	352,586
Materials and supplies	3,053	142,912
Student nutrition	346,028	315,244
Other expenses	126,013	28,199
Subtotal	<u>3,881,610</u>	<u>3,184,423</u>
Management and general:		
Depreciation	11,665	22,673
Management fee	873,103	762,632
Occupancy	225,343	420,651
Operating expenses	379,541	541
Debt service	-	72
Subtotal	<u>1,489,652</u>	<u>1,206,569</u>
Total Expenses	<u>5,371,262</u>	<u>4,390,992</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>178,595</u>	<u>103,938</u>
NET ASSETS, BEGINNING OF YEAR	<u>796,829</u>	<u>692,891</u>
NET ASSETS, END OF YEAR	<u>\$ 975,424</u>	<u>\$ 796,829</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 178,595	\$ 103,938
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,665	22,673
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(173,310)	135,497
Intra-company receivable	(40,848)	(82,636)
Prepaid expenses and other current assets	(10,967)	-
Security deposits	-	20,035
Increase (Decrease) in liabilities		
Accounts payable and accruals	180,352	(229,704)
Intra-company payable	119,551	-
Net Cash Provided by Operating Activities	<u>265,038</u>	<u>(30,197)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(84,791)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>180,247</u>	<u>(30,197)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>183,685</u>	<u>213,882</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 363,932</u>	<u>\$ 183,685</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 72</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 3

Charter school number authorized by the State: 0917

Magnolia Science Academy 3 (the Charter School) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 445 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$11,665 and \$22,673, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has \$91,004 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA 3's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 363,932	\$ 427,918	\$ 183,685	\$ 313,439

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$420,502 and \$305,378, respectively, in excess of insured limits.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
State principal apportionment	\$ 356,981	\$ 291,758
Due from other agencies	7,988	-
Federal receivable	90,365	48,274
State receivable	31,662	1,118
Lottery	46,853	19,842
Local receivable	<u>453</u>	<u>-</u>
Total Accounts Receivable	<u>\$ 534,302</u>	<u>\$ 360,992</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2016, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. On June 30, 2016 and 2015, the Charter School had an intercompany receivable balance of \$348,184 and \$307,336, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposit, insurance, and miscellaneous vendors	<u>\$ 10,967</u>	<u>\$ -</u>

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Software and equipment	\$ 221,439	\$ 136,648
Less: accumulated depreciation	(139,895)	(128,230)
Total Fixed Assets	<u>\$ 81,544</u>	<u>\$ 8,418</u>

During the year ended June 30, 2016 and 2015, \$11,665 and \$22,673, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ -	\$ 34,875
Compensated absences	15,094	-
Vendor payables	202,106	28,727
Due to other agencies	26,754	-
Total Accounts Payable	<u>\$ 243,954</u>	<u>\$ 63,602</u>

NOTE 9 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$119,551 and \$0, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 3 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$223,111.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Future payments are as follows:

<u>Fiscal Year</u>	<u>Facility Lease Payments</u>
2017	<u>\$ 203,688</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, was \$873,103 and \$762,632, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$154,884 and \$127,798, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$23,315 and \$4,046, respectively.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$97,301 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$42,038 and \$41,530, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial.

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA 3 as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA 3, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA 3 will be ongoing and adhere to all Federal guidelines and State charter laws.

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy 3 (Charter Number 0917) was granted on July 12, 2007, and renewed in 2012, for a period of five years expiring June 30, 2017, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	84.39	83.74
Seventh and eighth	187.43	186.40
Ninth through twelfth	<u>166.91</u>	<u>165.51</u>
Total Regular ADA	<u><u>438.73</u></u>	<u><u>435.65</u></u>
Classroom based ADA		
Sixth	84.39	83.74
Seventh and eighth	187.43	186.40
Ninth through twelfth	<u>166.91</u>	<u>165.51</u>
Total Classroom based ADA	<u><u>438.73</u></u>	<u><u>435.65</u></u>

The Charter School did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		65,570	179	N/A	Complied
Grade 7		65,570	179	N/A	Complied
Grade 8		65,570	179	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,570	179	N/A	Complied
Grade 10		65,570	179	N/A	Complied
Grade 11		65,570	179	N/A	Complied
Grade 12		65,570	179	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
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**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 976,776
Increase (Decrease) in:	
Intra-company receivable	348,184
Prepaid expenses and other current assets	(299,222)
(Increase) Decrease in:	
Accounts payable and accruals	69,237
Intra-company receivable	<u>(119,551)</u>
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 975,424</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 3 (MSA 3) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 3's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 3's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 3's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 3's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 3'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA 3 in a separate letter dated _____, 2016.

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

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

Report on State Compliance

We have audited Magnolia Science Academy 3's (MSA 3) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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The Charter School does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 3, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2016 on the financial statements of the Charter School.

Cash Collections

Observation

Teachers collecting funds at the Charter School do not use triplicate, pre-numbered receipt, logs, tally sheets or any sort of adequate cash collection backup.

Recommendation

It is recommended that the Charter School use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure. Two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are to be provided to the front office along with funds received.

Corrective Action Plans

The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

Governing Board
Magnolia Science Academy 3

DRAFT 12/02/2016

Cash Disbursements

Observation

It was noted that an "employee" of the charter school was paid outside of the payroll process as an "independent contractor" for "referee services".

Recommendation

The Charter School should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultation contracts to ensure the staff is aware of the IRS regulations. In addition, the charter school should perform a review of the procedures for determining who receives a Form 1099 to ensure all 1099's are properly issued.

Corrective Action Plan

Accounting staff is aware that employees are to be paid through the payroll process and not through the disbursements process.

We will review the status of the current year comments during our next audit engagement.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 4 (MSA 4) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 4, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA 4's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 4's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 4's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 494,503	\$ 352,618
Accounts receivable	198,718	142,430
Intra-company receivable	203,328	24,822
Prepaid expenses and other current assets	5,624	-
Total Current Assets	<u>902,173</u>	<u>519,870</u>
Non-Current Assets:		
Fixed assets	164,670	117,493
Less: accumulated depreciation	100,526	91,160
Total Non-Current Assets	<u>64,144</u>	<u>26,333</u>
Total Assets	<u>\$ 966,317</u>	<u>\$ 546,203</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accruals	\$ 141,922	\$ 79,383
Intra-company payable	161,905	-
Total Current Liabilities	<u>303,827</u>	<u>79,383</u>
NET ASSETS		
Unrestricted	<u>662,490</u>	<u>466,820</u>
Total Liabilities and Net Assets	<u>\$ 966,317</u>	<u>\$ 546,203</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 1,634,775	\$ 1,703,922
Federal revenue	227,541	138,952
Other State revenue	328,641	239,123
Local revenue	89,919	30,265
Total Revenues	<u>2,280,876</u>	<u>2,112,262</u>
EXPENSES		
Program services:		
Salaries and benefits	1,099,403	1,036,532
Student services	159,500	153,122
Materials and supplies	111,372	30,916
Student nutrition	47,129	52,263
Other expenses	29,526	4,885
Subtotal	<u>1,446,930</u>	<u>1,277,718</u>
Management and general:		
Depreciation	9,366	4,264
Management fee	342,757	237,895
Occupancy	145,840	146,543
Operating expenses	140,313	217,380
Interest	-	234
Subtotal	<u>638,276</u>	<u>606,316</u>
Total Expenses	<u>2,085,206</u>	<u>1,884,034</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>195,670</u>	<u>228,228</u>
NET ASSETS, BEGINNING OF YEAR	<u>466,820</u>	<u>238,592</u>
NET ASSETS, END OF YEAR	<u>\$ 662,490</u>	<u>\$ 466,820</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 195,670	\$ 228,228
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	9,366	4,264
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(56,288)	44,676
Intra-company receivable	(178,506)	(24,822)
Prepaid expenses and other current assets	(5,624)	-
Security deposits	-	19,225
Increase in liabilities		
Accounts payable and accruals	62,539	23,362
Intra-company payable	161,905	-
Net Cash Provided by Operating Activities	<u>189,062</u>	<u>294,933</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(47,177)</u>	<u>(24,863)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>-</u>	<u>(20,103)</u>
NET CHANGE IN CASH	<u>141,885</u>	<u>249,967</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>352,618</u>	<u>102,651</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 494,503</u>	<u>\$ 352,618</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 234</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 4

Charter school number authorized by the State: 0986

Magnolia Science Academy 4 (the Charter School) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 180 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$9,366 and \$4,264, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has a \$72,231 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA 4's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 494,503	\$ 517,562	\$ 352,618	\$ 565,596

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$508,593 and \$551,050, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 134,990	\$ 124,184
Due from other agencies	3,990	-
Federal receivable	10,308	6,812
State receivable	33,180	3,751
Lottery	16,249	7,683
Total Accounts Receivable	\$ 198,717	\$ 142,430

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$203,328 and \$24,822, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposit, insurance, and miscellaneous vendors	\$ 5,624	\$ -

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Software and equipment	\$ 164,670	\$ 117,493
Less: accumulated depreciation	(100,526)	(91,160)
Total Fixed Assets	<u>\$ 64,144</u>	<u>\$ 26,333</u>

During the year ended June 30, 2016 and 2015, \$9,366 and \$4,264, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 11,840	\$ 31,298
Compensated absences	6,462	-
Vendor payables	31,967	24,357
Due to other agencies	91,653	23,728
Total Accounts Payable	<u>\$ 141,922</u>	<u>\$ 79,383</u>

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2016, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company payable balance of \$161,905 from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 4 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$145,840.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, was \$342,757 and \$237,895, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$74,878 and 59,297, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$4,237 and \$3,739, respectively.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$45,168 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$21,531 and \$21,438, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

DRAFT 12/02/2016

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy (Charter Number 0986) was granted on May 8, 2008, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	12.67	12.67
Seventh and eighth	56.17	56.51
Ninth through twelfth	<u>108.73</u>	<u>109.00</u>
Total Regular ADA	<u><u>177.57</u></u>	<u><u>178.18</u></u>
Classroom based ADA		
Sixth	12.67	12.67
Seventh and eighth	56.17	56.51
Ninth through twelfth	<u>108.73</u>	<u>109.00</u>
Total Classroom based ADA	<u><u>177.57</u></u>	<u><u>178.18</u></u>

The Charter School did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		64,854	179	N/A	Complied
Grade 7		64,854	179	N/A	Complied
Grade 8		64,854	179	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,854	179	N/A	Complied
Grade 10		64,854	179	N/A	Complied
Grade 11		64,854	179	N/A	Complied
Grade 12		64,854	179	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 763,641
Increase (Decrease) in:	
Cash and cash equivalents	834
Intra-company receivable	203,328
Prepaid expenses and other current assets	(195,652)
(Increase) Decrease in:	
Accounts payable and accruals	52,244
Intra-company payable	<u>(161,905)</u>
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 662,490</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 4 (MSA 4) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 4's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 4's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 4's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 4's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 4's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

DRAFT 12/02/2016**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA 4'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA 4 in a separate letter dated _____, 2016.

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 MSA 4's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 4's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Magnolia Science Academy 4's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

DRAFT 12/02/2016

The Charter School does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 4, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2016 on the financial statements of the Academy.

Cash Collections

Observation

Cash collections are not all being receipted or logged at the time collection.

Recommendation

To strengthen the procedures over cash collections, all cash should be verified and receipted at the time of or very soon after the money is collected. This procedure prevents and avoids any dispute over the amount of cash submitted by the person turning in the funds to the office. The immediate receipting process is also a tool to reconcile the cash awaiting deposit to the receipts issued since the last deposit. The current system would not disclose that funds have been misplaced or stolen since the cash on hand at the date of the deposit would be the only funds receipted.

Corrective Action Plan

We will review the status of the current year comments during our next audit engagement.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 5 (MSA 5) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 5, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA 5's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 5's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 5's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 728,184	\$ 925,625
Accounts receivable	277,438	66,084
Intra-company receivable	206,150	180,692
Prepaid expenses and other current assets	1,232	-
Total Current Assets	<u>1,213,004</u>	<u>1,172,401</u>
Non-Current Assets:		
Fixed assets	111,918	111,918
Less: accumulated depreciation	105,008	91,406
Total Non-Current Assets	<u>6,910</u>	<u>20,512</u>
Total Assets	<u>\$ 1,219,914</u>	<u>\$ 1,192,913</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 128,016	\$ 337,641
Intra-company payable	14,383	-
Total Current Liabilities	<u>142,399</u>	<u>337,641</u>
NET ASSETS		
Unrestricted	<u>1,077,515</u>	<u>855,272</u>
Total Liabilities and Net Assets	<u>\$ 1,219,914</u>	<u>\$ 1,192,913</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 1,245,541	\$ 780,024
Federal revenue	218,990	78,761
Other State revenue	270,288	169,416
Local revenue	<u>14,618</u>	<u>6,657</u>
Total Revenues	<u>1,749,437</u>	<u>1,034,858</u>
EXPENSES		
Program services:		
Salaries and benefits	885,733	619,946
Student services	162,880	84,723
Materials and supplies	16,125	37,620
Student nutrition	51,935	16,246
Other expenses	<u>28,553</u>	<u>3,878</u>
Subtotal	<u>1,145,226</u>	<u>762,413</u>
Management and general:		
Depreciation	13,602	14,927
Management fee	142,214	103,749
Occupancy	100,264	99,063
Operating expenses	125,888	85,552
Interest	-	3,396
Subtotal	<u>381,968</u>	<u>306,687</u>
Total Expenses	<u>1,527,194</u>	<u>1,069,100</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>222,243</u>	<u>(34,242)</u>
NET ASSETS, BEGINNING OF YEAR	<u>855,272</u>	<u>889,514</u>
NET ASSETS, END OF YEAR	<u>\$ 1,077,515</u>	<u>\$ 855,272</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 222,243	\$ (34,242)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	13,602	14,927
Changes in operating assets and liabilities:		
Decrease in assets		
Accounts receivable	(211,354)	166,035
Intra-company receivable	(25,458)	169,308
Prepaid expenses and other current assets	(1,232)	-
Increase in liabilities		
Accounts payable and accruals	(209,625)	278,735
Intra-company payable	14,383	-
Net Cash Provided by (Used in) Operating Activities	<u>(197,441)</u>	<u>594,763</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>-</u>	<u>(11,281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>-</u>	<u>(16,688)</u>
NET CHANGE IN CASH	<u>(197,441)</u>	<u>566,794</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>925,625</u>	<u>358,831</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 728,184</u>	<u>\$ 925,625</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 3,396</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (the Charter School), formerly located in Hollywood, now located in Reseda, California provides sixth through eighth grade education to approximately 150 students. The Charter School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$13,602 and \$14,927.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has a \$100,553 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA 5's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in bank	\$ 728,184	\$ 751,356	\$ 925,625	\$ 1,020,968

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$738,335 and \$994,710, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 158,778	\$ 44,351
Due from other agencies	1,900	
Federal receivable	75,657	413
State receivable	22,155	1,146
Lottery	18,948	9,204
Local receivable	-	10,970
Total Accounts Receivable	\$ 277,438	\$ 66,084

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$206,150 and \$180,692, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	\$ 1,232	\$ -

NOTE 7 - FIXED ASSETS

Property and equipment consisted of the following at June 30, 2016 and 2015:

	2016	2015
Software and equipment	\$ 111,918	\$ 111,918
Less: accumulated depreciation	(105,008)	(91,406)
Total Fixed Assets	\$ 6,910	\$ 20,512

During the year ended June 30, 2016 and 2015, \$13,602 and \$14,927, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ 5,570	\$ 16,962
Compensated absences	5,688	-
Vendor payables	87,648	30,276
Due to other agencies	29,110	290,403
Total Accounts Payable	\$ 128,016	\$ 337,641

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2016, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company payable balance of \$14,383 from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 5 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$100,168.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2017	<u>\$ 100,168</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, were \$142,214 and \$103,749, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from these multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$57,348 and \$31,370, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$8,358 and \$3,899, respectively.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$56,811 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) DBA CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

The CharterSAFE has budgeting and financial reporting requirements independent of member units and the CharterSAFE's financial statements are not presented in these financial statements; however, transactions between the CharterSAFE and the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$12,586 and \$9,421, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for MSA as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with MSA, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 20, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA will be ongoing and adhere to all Federal guidelines and State charter laws.

DRAFT 12/02/2016

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy (Charter Number 0987) was granted on May 8, 2008, by the Los Angeles Unified School District. The Charter School has been approved for grades six through eight and operated one school, grades six through eight for the year ended June 30, 2016.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	61.74	61.67
Seventh and eighth	81.41	82.32
Total Regular ADA	<u>143.15</u>	<u>143.99</u>
Classroom based ADA		
Sixth	61.74	61.67
Seventh and eighth	81.41	82.32
Total Classroom based ADA	<u>143.15</u>	<u>143.99</u>

The Charter School did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		62,640	180	N/A	Complied
Grade 7		62,640	180	N/A	Complied
Grade 8		62,640	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 1,144,335
Increase (Decrease) in:	
Cash and cash equivalents	1,396
Accounts receivable	24,793
Intra-company receivable	206,150
Prepaid expenses and other current assets	(232,722)
(Increase) in:	
Accounts payable and accruals	(52,054)
Intra-company payable	(14,383)
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 1,077,515</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSA 5 (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 5's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 5's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 5's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 5's internal control.

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

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

DRAFT 12/02/2016**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA 5'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on State Compliance

We have audited Magnolia Science Academy 5's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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The Charter School does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 5, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 6 (MSA 6) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 6, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA 6's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 6's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 6's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 535,854	\$ 806,785
Accounts receivable	297,410	229,670
Intra-company receivable	300,000	-
Prepaid expenses and other current assets	3,835	8,000
Total Current Assets	<u>1,137,099</u>	<u>1,044,455</u>
Non-Current Assets:		
Fixed assets	148,877	62,699
Less: accumulated depreciation	82,477	62,699
Total Non-Current Assets	<u>66,400</u>	<u>-</u>
Total Assets	<u>\$ 1,203,499</u>	<u>\$ 1,044,455</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 136,224	\$ 388,721
Intra-company payable	110,010	181,177
Total Current Liabilities	<u>246,234</u>	<u>569,898</u>
NET ASSETS		
Unrestricted	<u>957,265</u>	<u>474,557</u>
Total Liabilities and Net Assets	<u>\$ 1,203,499</u>	<u>\$ 1,044,455</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 1,415,790	\$ 1,155,329
Federal revenue	137,157	105,101
Other State revenue	387,689	221,875
Local revenue	38,359	29,582
Total Revenues	<u>1,978,995</u>	<u>1,511,887</u>
EXPENSES		
Program services:		
Salaries and benefits	843,832	686,248
Student services	74,310	52,787
Materials and supplies	55,947	37,676
Student nutrition	51,330	30,234
Other expenses	57,410	9,755
Subtotal	<u>1,082,829</u>	<u>816,700</u>
Management and general:		
Depreciation	19,778	8,461
Management fee	167,776	-
Occupancy	109,407	96,000
Operating expenses	116,497	180,631
Subtotal	<u>413,458</u>	<u>285,092</u>
Total Expenses	<u>1,496,287</u>	<u>1,101,792</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>482,708</u>	<u>410,095</u>
NET ASSETS, BEGINNING OF YEAR	<u>474,557</u>	<u>64,462</u>
NET ASSETS, END OF YEAR	<u>\$ 957,265</u>	<u>\$ 474,557</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 482,708	\$ 410,095
Adjustments to reconcile change in net assets to net cash provided by (used) operating activities:		
Depreciation expense	19,778	8,461
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(67,740)	93,655
Intra-company receivable	(300,000)	(294,100)
Prepaid expenses and other current assets	4,165	(8,000)
(Decrease) in liabilities		
Accounts payable and accruals	(252,497)	288,436
Intra-company payable	(71,167)	173,719
Net Cash Provided (Used) by Operating Activities	<u>(184,753)</u>	<u>672,266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(86,178)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>-</u>	<u>(23,438)</u>
NET INCREASE (DECREASE) IN CASH	<u>(270,931)</u>	<u>648,828</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>806,785</u>	<u>157,957</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 535,854</u>	<u>\$ 806,785</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy-6 (School) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 175 students. The School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$19,778 and \$8,461, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has \$64,308 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA 6's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in bank	\$ 535,854	\$ 542,341	\$ 806,785	\$ 847,430

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$532,943 and \$597,430, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 178,016	\$ 187,628
Due from other agencies	2,914	-
Federal receivable	34,888	8,578
State receivable	62,845	6,000
Lottery	18,747	5,694
Local receivable	-	21,770
Total Accounts Receivable	\$ 297,410	\$ 229,670

NOTE 5 - INTRA-COMPANY RECEIVABLE

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$300,000 and \$0, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>\$ 3,835</u>	<u>\$ 8,000</u>

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Software and equipment	\$ 148,877	\$ 62,699
Less: accumulated depreciation	(82,477)	(62,699)
Total Fixed Assets	<u>\$ 66,400</u>	<u>\$ -</u>

During the year ended June 30, 2016 and 2015, \$19,778 and \$8,461, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 9,282	\$ 16,095
Compensated absences	6,688	-
Vendor payables	52,144	30,724
Due to other agencies	-	341,902
State principal apportionment	68,110	-
Total Accounts Payable	<u>\$ 136,224</u>	<u>\$ 388,721</u>

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$110,010 and \$181,177, respectively, from the Foundation.

NOTE 10 - OPERATING LEASE

Magnolia Science Academy 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms on August 1, 2015, for the property located at 3754 Dunn Drive, Los Angeles, California for the sole purpose of operating the Charter School educational programs and related Charter School activities. Lease payments during 2015-2016 were \$109,257.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2017	<u>\$ 114,000</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, was \$65,483 and \$150,563, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$58,420 and \$35,864, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$5,116 and \$4,020, respectively.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$29,920 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$14,337 and \$13,602, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy 6 (Charter Number 0988) was granted on May 8, 2008, by the Los Angeles Unified School District. The Charter School operates one school, grades six through eight.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	61.26	61.45
Seventh and eighth	<u>106.39</u>	<u>107.04</u>
Total Regular ADA	<u>167.65</u>	<u>168.49</u>
Classroom based ADA		
Sixth	61.26	61.45
Seventh and eighth	<u>106.39</u>	<u>107.04</u>
Total Classroom based ADA	<u>167.65</u>	<u>168.49</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		62,840	180	N/A	Complied
Grade 7		62,840	180	N/A	Complied
Grade 8		62,840	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 1,006,776
Increase (Decrease) in:	
Cash and cash equivalents	55
Intra-company receivable	300,000
Prepaid expenses and other current assets	(292,283)
(Increase) Decrease in:	
Accounts payable and accruals	52,727
Intra-company payable	<u>(110,010)</u>
Balance, June 30, 2016, Audited Financial Statement	<u><u>\$ 957,265</u></u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSA 6 (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 6's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 6's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 6's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 6's internal control.

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

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

DRAFT 12/02/2016**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA 6'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Magnolia Science Academy 6's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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The Charter School does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 6, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 2 (MSA 2) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 2, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA 2's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 2's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 2's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 974,391	\$ 571,069
Accounts receivable	433,591	362,421
Intra-company receivable	126,413	103,066
Prepaid expenses and other current assets	10,859	-
Total Current Assets	<u>1,545,254</u>	<u>1,036,556</u>
Non-Current Assets:		
Fixed assets	374,363	198,585
Less: accumulated depreciation	190,348	139,376
Total Non-Current Assets	<u>184,015</u>	<u>59,209</u>
Total Assets	<u>\$ 1,729,269</u>	<u>\$ 1,095,765</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 245,448	\$ 51,506
Intra-company payable	317,863	-
Current portion of long-term obligations	25,006	25,000
Total Current Liabilities	<u>588,317</u>	<u>76,506</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	-	25,000
Total Liabilities	<u>588,317</u>	<u>101,506</u>
NET ASSETS		
Unrestricted	<u>1,140,952</u>	<u>994,259</u>
Total Liabilities and Net Assets	<u>\$ 1,729,269</u>	<u>\$ 1,095,765</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 4,104,344	\$ 3,336,116
Federal revenue	242,928	222,128
Other State revenue	734,177	393,474
Local revenue	121,543	53,812
Total Revenues	<u>5,202,992</u>	<u>4,005,530</u>
EXPENSES		
Program services:		
Salaries and benefits	2,633,051	2,190,290
Student services	235,108	320,550
Materials and supplies	277,624	127,386
Student nutrition	53,394	75,779
Other expenses	137,503	16,738
Management and general:		
Depreciation	50,973	7,720
Management fee	1,145,791	757,224
Occupancy	11,179	140,120
Operating expenses	511,533	214,576
Interest	143	296
Subtotal	<u>1,719,619</u>	<u>1,119,936</u>
Total Expenses	<u>5,056,299</u>	<u>3,850,679</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>146,693</u>	<u>154,851</u>
NET ASSETS, BEGINNING OF YEAR	<u>994,259</u>	<u>839,408</u>
NET ASSETS, END OF YEAR	<u>\$ 1,140,952</u>	<u>\$ 994,259</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	\$ 146,693	\$ 154,851
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	50,972	7,720
Changes in operating assets and liabilities:		
Decrease in assets		
Accounts receivable	(71,170)	169,800
Intra-company receivable	(23,347)	20,103
Prepaid expenses and other current assets	(10,859)	-
Security deposits	-	21,310
Increase in liabilities		
Accounts payable and accruals	193,942	(91,243)
Intra-company payable	317,863	-
Net Cash Provided by Operating Activities	<u>604,094</u>	<u>282,541</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(175,778)</u>	<u>(41,723)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>(24,994)</u>	<u>(24,998)</u>
NET INCREASE IN CASH	403,322	215,820
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>571,069</u>	<u>355,249</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 974,391</u>	<u>\$ 571,069</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 143</u>	<u>\$ 296</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (the Charter School) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 475 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding. Magnolia Public Schools provides a college preparatory educational program emphasizing science, technology, engineering, and math (STEM) in a safe environment that cultivates respect for self and others. Graduates of Magnolia Public Schools are scientific thinkers who contribute to the global community as socially responsible and educated members of society.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tiered expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 15 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, and , respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY 2

(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During - , the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)**NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, and , management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, and , was \$50,973 and \$7,720, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY 2 **(A California Non-Profit Public Benefit Corporation)**

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2016**

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy 2 consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, , the Charter School has \$93,549 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA 2's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH

Cash at June 30, Error! **Unknown switch argument.** and , consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 974,391	\$ 1,026,585	\$ 571,069	\$ 637,167

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, and , the Charter School had \$1,008,795 and \$620,780, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, Error! **Unknown switch argument.** and , consisted of the following:

	2016	2015
State principal apportionment	\$ 363,526	\$ -
Federal receivable	1,445	1,474
Due from other agencies	8,091	360,947
State receivable	9,986	-
Lottery	50,543	-
Total Accounts Receivable	\$ 433,591	\$ 362,421

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, , intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, and , the Charter School had an intra-company receivable balance of \$126,413 and \$103,066, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, , consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposit, insurance, and miscellaneous vendors	\$ 10,859	\$ -

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, and , consisted of the following:

	<u>2016</u>	<u>2015</u>
Software and equipment	\$ 374,363	\$ 198,585
Less: accumulated depreciation	(190,348)	(139,376)
Total Fixed Assets	<u>\$ 184,015</u>	<u>\$ 59,209</u>

During the year ended June 30, and , \$50,973 and \$7,720, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, Error! **Unknown switch argument.** and , consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 24,328	\$ 16,498
Compensated absences	18,781	11,290
Vendor payables	198,750	-
Due to other agencies	3,589	23,718
	<u>\$ 245,448</u>	<u>\$ 51,506</u>

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, , intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, , the Charter School had an intra-company payable balance of \$317,863 from the Foundation.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - REVOLVING LOAN

The Charter School applied for, and was accepted into, the California School Finance Authority Charter School Revolving Loan Program. The Charter School received a loan in the amount of \$100,000. The loan bears an interest rate of 0.24 percent. The terms of the loan require four annual payments of \$25,000 over the next four years and are to be withheld from the apportionment payments. The maturity date is June 30, 2017.

Future payments are as follows:

Fiscal Year Ending June 30, <u>2017</u>	<u>Payments</u> \$ 25,006
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NOTE 11 - FACILITIES USE AGREEMENT

Magnolia Science Academy 2 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$129,991.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, and , were \$1,145,791 and \$757,224, respectively.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from these multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, , are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, and , are presented above and the Charter School's total contributions were \$175,219 and \$130,422, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, , are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, and , are presented above and the total Charter School contributions were \$22,484 and \$5,012, respectively.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$89,521 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year - at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, and , the Charter School made payments of \$41,633 and \$42,200, respectively, to CharterSAFE for services received. At June 30, and , respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 16 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, , which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial.

On October 18, 2016, Los Angeles Unified School District took action not to extend a five-year renewal for the MSA 2 as of June 30, 2017. In accordance with charter law, Magnolia Educational Research Foundation, working with the MSA 2, has applied for an appeal and is scheduled for a hearing with Los Angeles County Office of Education on December 6, 2016. Depending on the outcome, alternative appeals are available with the California Department of Education to be concluded by May 2017. Management is 100 percent confident that the continuance of MSA 2 will be ongoing and adhere to all Federal guidelines and State charter laws.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30,

ORGANIZATION

Magnolia Science Academy 2 (Charter Number 0906) was granted on July 1, 2002, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30,

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	91.00	90.10
Seventh and eighth	199.01	198.47
Ninth through twelfth	168.81	167.31
Total Regular ADA	<u>458.82</u>	<u>455.88</u>
Classroom based ADA		
Sixth	91.00	90.10
Seventh and eighth	199.01	198.47
Ninth through twelfth	168.81	167.31
Total Classroom based ADA	<u>458.82</u>	<u>455.88</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30,

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		64,920	180	N/A	Complied
Grade 7		64,920	180	N/A	Complied
Grade 8		64,920	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,920	180	N/A	Complied
Grade 10		64,920	180	N/A	Complied
Grade 11		64,920	180	N/A	Complied
Grade 12		64,920	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30,**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 1,210,746
Increase (Decrease) in:	
Accounts receivable	2,603
Intra-company receivable	126,413
Prepaid expenses and other current assets	(50,930)
(Increase) Decrease in:	
Accounts payable and accruals	169,983
Intra-company payable	<u>(317,863)</u>
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 1,140,952</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30,

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 2 (MSA 2) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 2's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 2's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 2's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 2'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on State Compliance

We have audited Magnolia Science Academy 2's (MSA 2) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of MSA 2's State government programs as noted below for the year ended June 30, .

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

Other Matters

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

The Charter School does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

, California

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 2, for the year ended Error! Unknown **switch argument.**, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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INDEPENDENT AUDITOR'S REPORT

Governing Board of Directors
Magnolia Science Academy 7
(A California Non-Profit Public Benefit Corporation)
Northridge, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 7 (MSA 7) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 7, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Comparative Information

The prior year comparative information has been derived from MSA 7's consolidated financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA 7's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA 7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 7's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 914,277	\$ 924,010
Accounts receivable	372,498	502,994
Intra-company receivable	112,514	133,118
Prepaid expenses and other current assets	28,109	-
Total Current Assets	<u>1,427,398</u>	<u>1,560,122</u>
Non-Current Assets		
Security deposits	4,000	4,000
Fixed assets	122,900	110,112
Less: accumulated depreciation	84,099	59,072
Total Non-Current Assets	<u>42,801</u>	<u>55,040</u>
Total Assets	<u>\$ 1,470,199</u>	<u>\$ 1,615,162</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 389,849	\$ 777,660
Intra-company payable	132,998	-
Total Current Liabilities	<u>522,847</u>	<u>777,660</u>
NET ASSETS		
Unrestricted	947,352	837,502
Total Liabilities and Net Assets	<u>\$ 1,470,199</u>	<u>\$ 1,615,162</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 2,384,759	\$ 2,049,711
Federal revenue	243,652	249,512
Other State revenue	808,969	618,969
Local revenue	<u>77,755</u>	<u>60,292</u>
Total Revenues	<u>3,515,135</u>	<u>2,978,484</u>
EXPENSES		
Program services:		
Salaries and benefits	1,710,538	1,344,404
Student services	184,561	166,133
Materials and supplies	77,871	149,099
Student nutrition	149,306	139,482
Other expenses	<u>79,655</u>	<u>58,525</u>
Subtotal	<u>2,201,931</u>	<u>1,857,643</u>
Management and general:		
Depreciation	25,027	25,417
Management fee	545,689	450,015
Occupancy	280,315	228,598
Operating expenses	352,323	177,687
Interest	-	135
Subtotal	<u>1,203,354</u>	<u>881,852</u>
Total Expenses	<u>3,405,285</u>	<u>2,739,495</u>
CHANGE IN UNRESTRICTED NET ASSETS	109,850	238,989
NET ASSETS, BEGINNING OF YEAR	<u>837,502</u>	<u>598,513</u>
NET ASSETS, END OF YEAR	<u>\$ 947,352</u>	<u>\$ 837,502</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 109,850	\$ 238,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	25,027	25,417
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	130,496	(19,707)
Intra-company receivable	20,604	(133,118)
Prepaid expenses and other current assets	(28,109)	-
Security deposits	-	20,259
Increase in liabilities:		
Accounts payable and accruals	(387,811)	596,613
Intra-company payable	132,998	-
Net Cash Provided by Operating Activities	<u>3,055</u>	<u>728,453</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(12,788)</u>	<u>(33,706)</u>
CHANGE IN CASH	<u>(9,733)</u>	<u>694,747</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>924,010</u>	<u>229,263</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 914,277</u>	<u>\$ 924,010</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 135</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (Charter School) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 290 students. The Charter School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles Unified School District approved the charter on February 26, 2008, and renewed the charter agreement in 2014 for a period of five years ending in 2019. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

MPM Sherman Way, LLC

The Foundation has the following consolidated affiliates (where the Foundation is the sole member) that were formed to provide assistance with funding capital improvement on behalf of the Foundation's activities. MPM Sherman Way LLC, a California limited liability company.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets, as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School are a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The Charter School have adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$25,027 and \$25,417, respectively.

Deferred Revenue

Deferred revenue arises when resources are received by the Charter School prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when the Charter School have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School' program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Net Asset Classes

Magnolia Science Academy 7 is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy 7 consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has a \$73,273 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Magnolia Science Academy 7's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

NOTE 3 - CASH

Cash at June 30, 2016, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand	\$ 914,277	\$ 931,380	\$ 924,010	\$ 1,033,970

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$915,240 and \$1,007,378, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016, consisted of the following:

	2016	2015
State principal apportionment	\$ 205,658	\$ 324,936
Due from other agencies	5,059	-
Federal receivable	35,052	12,382
State receivable	97,289	57,924
Lottery	29,440	11,817
Local receivable	-	95,935
Total Accounts Receivable	\$ 372,498	\$ 502,994

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2016, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$112,514 and \$133,118, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	\$ 32,109	\$ 4,000

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Building improvements	\$ 27,904	\$ 27,904
Computer and equipment	94,996	82,208
Subtotal	122,900	110,112
Less: accumulated depreciation	(84,099)	(59,072)
Total Fixed Assets	\$ 38,801	\$ 51,040

During the year ended June 30, 2016 and 2015, \$25,027 and \$25,417, respectively, was charged to depreciation expense.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 21,199	\$ -
Compensated absences	14,156	-
Vendor payables	104,089	43,809
Due to other agencies	149,049	733,851
State principal apportionment	<u>101,356</u>	<u>-</u>
Total Accounts Payable	<u>\$ 389,849</u>	<u>\$ 777,660</u>

NOTE 9 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$132,998 and \$0, respectively, from the Foundation.

NOTE 10 - OPERATING LEASES

Magnolia Science Academy 7 entered into a lease agreement with First Lutheran Church of Northridge on December 1, 2011, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating the Charter School educational programs and related Charter School activities and include rental fees shall that shall be paid on the first of every month. Monthly payments in the amount of \$14,000 shall be made beginning in fiscal year 2011-2012 and increase 3 percent annually. The term of the lease expires on August 1, 2016. Lease payments during 2015-2016 were \$253,564.

The future minimum lease commitments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2017	<u>\$ 242,518</u>

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, were \$545,689 and \$450,015, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the Charter School's total contributions were \$98,719 and \$65,818, respectively.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

MAGNOLIA SCIENCE ACADEMY 7
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$20,628 and 8,442, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Academies. These payments consist of State General Fund contributions to CalSTRS in the amount of \$56,660 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between The Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The CharterSAFE has budgeting and financial reporting requirements independent of member units and the CharterSAFE's financial statements are not presented in these financial statements; however, transactions between the CharterSAFE and the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$13,040 and \$9,415, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

Magnolia Science Academy 7 has no outstanding claims or litigation.

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy 7 (Charter Number 0989) was granted on February 26, 2008, by the Los Angeles Unified School District. The Charter School operates one school, grades kindergarten through five.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	174.26	173.52
Fourth through sixth	104.15	103.95
Total Regular ADA	<u>278.41</u>	<u>277.47</u>
Classroom based ADA		
Transitional kindergarten through third	174.26	173.52
Fourth through sixth	104.15	103.95
Total Classroom based ADA	<u>278.41</u>	<u>277.47</u>

The Charter School did not operate a non-classroom based Instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	56,875	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		56,875	180	N/A	Complied
Grade 2		56,875	180	N/A	Complied
Grade 3		56,875	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,875	180	N/A	Complied
Grade 5		56,875	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 939,108
Increase (Decrease) in:	
Cash and cash equivalents	5,095
Accounts receivable	(376,655)
Intra-company receivable	112,514
Prepaid expenses and other current assets	(95,336)
Security deposit	4,000
(Increase) Decrease in:	
Accounts payable and accruals	491,624
Intra-company payable	(132,998)
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 947,352</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the schools operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSA 7 (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA 7's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 7's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 7's internal control.

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

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

DRAFT 12/02/2016**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA 7'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

Report on State Compliance

We have audited Magnolia Science Academy 7's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

DRAFT 12/02/2016

The Charter School does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

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Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 7, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy Bell
(A California Nonprofit Public Benefit Corporation)
Bell, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Bell (MSA Bell) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Bell, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA Bell's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA Bell's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA Bell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Bell's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

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FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,029,820	\$ 2,421,557
Accounts receivable	479,912	422,414
Intra-company receivable	612,759	148,920
Prepaid expenses and other current assets	12,091	-
Total Current Assets	<u>3,134,582</u>	<u>2,992,891</u>
Non-Current Assets		
Fixed assets	202,508	39,399
Less: accumulated depreciation	61,812	17,417
Total Non-Current Assets	<u>140,696</u>	<u>21,982</u>
Total Assets	<u>\$ 3,275,278</u>	<u>\$ 3,014,873</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 196,893	\$ 138,208
Intra-company payable	74,210	-
Total Current Liabilities	<u>271,103</u>	<u>138,208</u>
NET ASSETS		
Unrestricted	<u>3,004,175</u>	<u>2,876,665</u>
Total Liabilities and		
Net Assets	<u>\$ 3,275,278</u>	<u>\$ 3,014,873</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 4,186,383	\$ 3,611,558
Federal revenue	300,266	298,515
Other State revenue	936,594	637,876
Local revenue	<u>124,582</u>	<u>60,207</u>
Total Revenues	<u>5,547,825</u>	<u>4,608,156</u>
EXPENSES		
Program services:		
Salaries and benefits	3,095,595	2,591,882
Student services	198,391	243,914
Materials and supplies	151,337	139,340
Student nutrition	181,371	183,583
Other expenses	<u>196,162</u>	<u>52,716</u>
Subtotal	<u>3,822,856</u>	<u>3,211,435</u>
Management and general:		
Depreciation	44,395	6,659
Management fee	1,000,958	872,216
Operating expenses	<u>552,106</u>	<u>528,639</u>
Subtotal	<u>1,597,459</u>	<u>1,407,514</u>
Total Expenses	<u>5,420,315</u>	<u>4,618,949</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>127,510</u>	<u>(10,793)</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,876,665</u>	<u>2,887,458</u>
NET ASSETS, END OF YEAR	<u>\$ 3,004,175</u>	<u>\$ 2,876,665</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 127,510	\$ (10,793)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	44,395	6,659
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(57,498)	194,561
Intra-company receivable	(463,839)	719,561
Prepaid expenses and other current assets	(12,091)	101,566
Increase (Decrease) in liabilities		
Accounts payable and accruals	58,685	(21,828)
Intra-company payable	74,210	-
Net Cash Provided by (Used in) Operating Activities	<u>(228,628)</u>	<u>989,726</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(163,109)</u>	<u>(7,441)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>(391,737)</u>	<u>982,285</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,029,820</u>	<u>\$ 2,421,557</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Bell

Charter school number authorized by the State: 1236

Magnolia Science Academy-8 (the Charter School) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 495 students. The Charter School was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)****DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$44,395 and \$6,659, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016, the Charter School has a \$99,897 designated balance for California Clean Energy Jobs Act and Educator Effectiveness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA Bell's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash in banks	<u>\$ 2,029,820</u>	<u>\$ 2,097,984</u>	<u>\$ 2,421,557</u>	<u>\$ 2,454,728</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$2,061,627 and \$2,391,596, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 392,048	\$ 359,620
Due from other agencies	8,643	-
Federal receivable	504	8,490
State receivable	27,090	22,546
Lottery	51,627	31,758
Total Accounts Receivable	<u>\$ 479,912</u>	<u>\$ 422,414</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$612,759 and \$148,920, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, are as follows:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	\$ 12,091	\$ -

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Software and equipment	\$ 202,508	\$ 39,399
Less: accumulated depreciation	(61,812)	(17,417)
Total Fixed Assets	\$ 140,696	\$ 21,982

During the year ended June 30, 2016, \$44,395 and \$6,659, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ 61,269	\$ 33,965
Compensated absences	25,969	-
Vendor payables	105,784	44,936
Due to other agencies	3,871	59,307
Total Accounts Payable	\$ 196,893	\$ 138,208

NOTE 9 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$74,210 and \$0, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 8 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$282,890.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2017	<u>\$ 282,890</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, were \$1,000,958 and \$872,216, respectively.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$190,540 and \$133,110, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$34,719 and 20,475, respectively.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$112,148 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

The CharterSAFE has budgeting and financial reporting requirements independent of member units and the CharterSAFE's financial statements are not presented in these financial statements; however, transactions between the CharterSAFE and the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$46,189 and \$45,617, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

DRAFT 12/02/2016

SUPPLEMENTARY INFORMATION

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016**

ORGANIZATION

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	159.68	159.99
Seventh and eighth	319.48	319.21
Total Regular ADA	<u>479.16</u>	<u>479.20</u>
Classroom based ADA		
Sixth	159.68	15.99
Seventh and eighth	319.48	319.21
Total Classroom based ADA	<u>479.16</u>	<u>335.20</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		69,445	180	N/A	Complied
Grade 7		69,445	180	N/A	Complied
Grade 8		69,445	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 3,061,347
Increase (Decrease) in:	
Cash and cash equivalents	2,140
Accounts receivable	1,586
Intra-company receivable	612,759
Prepaid expenses and other current assets	(590,243)
(Increase) in:	
Accounts payable and accrued payroll	(9,204)
Fixed Assets	(74,210)
Balance, June 30, 2016, Unaudited Actuals	
Audited Financial Statement	<u>\$ 3,004,175</u>

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy Bell
(A California Nonprofit Public Benefit Corporation)
Bell, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of MSA Bell (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA Bell's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

DRAFT 12/02/2016**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA Bell'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA Bell in a separate letter dated _____, 2016.

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

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy Bell
(A California Nonprofit Public Benefit Corporation)
Bell, California

Report on State Compliance

We have audited Magnolia Science Academy Bell's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

The Charter School did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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The Charter School does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

The Charter School does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

The Charter School was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
 Magnolia Science Academy Bell
 (A California Non-Profit Public Benefit Corporation)
 Bell, California

In planning and performing our audit of the financial statements of Magnolia Science Academy Bell, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2016 on the financial statements of the Charter School.

Cash Collections - MSA Bell

Observation

Teachers collecting funds at the Charter School do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup. Additionally, cash count sheets are not consistently being signed by a reviewer.

Recommendation

It is recommended that the Charter School use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds receipted.

Corrective Action Plans

The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

We will review the status of the current year comments during our next audit engagement.

Rancho Cucamonga, California
 _____, 2016

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy Santa Ana
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Santa Ana, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA Santa Ana's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA Santa Ana's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA Santa Ana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Ana's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 170,647	\$ 140,106
Restricted assets		
Cash held for restricted purposes	5,774,345	432,732
Accounts receivable	213,512	578,641
Intra-company receivable	2,759	-
Prepaid expenses and other current assets	5,354	19,000
Total Current Assets	<u>6,166,617</u>	<u>1,170,479</u>
Non-Current Assets:		
Security deposits	27,000	27,000
Fixed assets	12,030,297	3,788,424
Less: accumulated depreciation	128,715	94,867
Total Non-Current Assets	<u>11,928,582</u>	<u>3,720,557</u>
Total Assets	<u>\$ 18,095,199</u>	<u>\$ 4,891,036</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 201,105	\$ 149,228
Intra-company payable	776,832	330,000
Deferred revenue	61,355	354,000
Current portion of long-term obligations	25,000	25,000
Total Current Liabilities	<u>1,064,292</u>	<u>858,228</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>8,731,986</u>	<u>2,090,702</u>
Total Liabilities	<u>9,796,278</u>	<u>2,948,930</u>
NET ASSETS		
Unrestricted	<u>8,298,921</u>	<u>1,942,106</u>
Total Liabilities and Net Assets	<u>\$ 18,095,199</u>	<u>\$ 4,891,036</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 1,178,240	\$ 1,155,757
Federal revenue	364,623	89,864
Other State revenue	7,070,882	210,696
Local revenue	47,229	29,745
Total Revenues	<u>8,660,974</u>	<u>1,486,062</u>
EXPENSES		
Program services:		
Salaries and benefits	1,239,163	993,530
Student services	127,714	231,343
Materials and supplies	169,969	27,013
Student nutrition	68,807	37,922
Other expenses	49,339	9,483
Subtotal	<u>1,654,992</u>	<u>1,299,291</u>
Management and general:		
Depreciation	33,848	24,823
Management fee	60,000	-
Occupancy	229,754	206,499
Operating expenses	325,565	260,521
Debt service	-	460
Subtotal	<u>649,167</u>	<u>492,303</u>
Total Expenses	<u>2,304,159</u>	<u>1,791,594</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>6,356,815</u>	<u>(305,532)</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,942,106</u>	<u>2,247,638</u>
NET ASSETS, END OF YEAR	<u>\$ 8,298,921</u>	<u>\$ 1,942,106</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 6,356,815	\$ (305,532)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	33,848	24,823
Changes in operating assets and liabilities:		
Decrease in assets		
Accounts receivable	365,129	(334,028)
Intra-company receivable	(2,759)	-
Prepaid expenses and other current assets	13,646	(19,000)
Security deposits	-	(17,922)
Increase in liabilities		
Accounts payable and accruals	51,877	40,275
Intra-company payable	446,832	330,000
Deferred revenue	(292,645)	354,000
Net Cash Provided by Operating Activities	<u>6,972,743</u>	<u>72,616</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(8,241,873)</u>	<u>(302,828)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	6,641,284	-
Loan principal payments	<u>-</u>	<u>(24,996)</u>
Net Cash Provided by (Used in) Financing Activities	<u>6,641,284</u>	<u>(24,996)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,372,154</u>	<u>(255,208)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,944,992</u>	<u>\$ 572,838</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 0943

Magnolia Science Academy Santa Ana (School) (Formerly Pacific Technology School Santa Ana) is a charter school located in Costa Mesa, California that provides sixth through twelfth grade education to approximately 165 students. The Charter School was created under the approval the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 19 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
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JUNE 30, 2016**

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
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Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$33,848 and \$24,823, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

Net Asset Classes

Magnolia Science Academy Santa Ana (Formerly Pacific Technology School Santa Ana) is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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Net assets of the Magnolia Science Academy Santa Ana (Formerly Pacific Technology School Santa Ana) consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as designated assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2016 and 2015, the amount of restricted assets was \$5,774,345 and \$432,732, respectively. Also, a designated balance of \$68,642 for California Clean Energy Jobs Act and Educator Effectiveness for the 2016 fiscal year.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA Santa Ana's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 23,292	\$ 23,292	\$ 71,428	\$ 130,232

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$23,292 and \$126,882, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - RESTRICTED CASH

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2016 and 2015, was comprised of the following:

	2016	2015
Current restricted cash	\$ 5,774,345	\$ 432,732

Restricted cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its restricted cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had a balance of \$5,702,783 and \$410,700, respectively, in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

Investment Type	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Treasury Investment Pool	\$ 147,355	\$ 147,718	\$ 68,678	\$ 68,550

Deposits with county treasurer are an external investment pool sponsored by the County of Orange. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Charter School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Charter School manages its exposure to interest rate risk by investing in the County Pool.

NOTE 6- MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

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Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 147,718	319

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 68,550	278

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 11,383	\$ 139,927
Federal receivable	152,970	383,721
State receivable	35,121	54,993
Lottery	14,038	-
Total Accounts Receivable	\$ 213,512	\$ 578,641

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NOTE 8 - INTRA-COMPANY RECEIVABLE

The June 30, 2016, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company receivable balance of \$2,759 from the Foundation.

NOTE 9 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	\$ 32,354	\$ 27,000

NOTE 10 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Construction in progress	\$11,797,901	\$ 3,652,414
Software and equipment	232,396	136,010
Subtotal	12,030,297	3,788,424
Less: accumulated depreciation	(128,715)	(94,867)
Total Fixed Assets	<u>\$11,901,582</u>	<u>\$ 3,693,557</u>

During the year ended June 30, 2016 and 2015, \$33,848 and \$24,823, respectively, was charged to depreciation expense.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Salaries and benefits	\$ 6,251	\$ 9,219
Compensated absences	7,375	-
Vendor payables	187,064	140,009
Due to other agencies	415	-
Total Accounts Payable	<u>\$ 201,105</u>	<u>\$ 149,228</u>

NOTE 12 - DEFERRED REVENUE

Deferred revenue at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Federal sources	<u>\$ 61,355</u>	<u>\$ 354,000</u>

NOTE 13 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$776,832 and \$330,000 from the Foundation.

NOTE 14 - LOANS PAYABLE

California Department of Education

The Charter School received unsecured revolving loan payable to the California Department of Education totaling \$150,000 on November 30, 2012. The loan balance as of June 30, 2016, was \$75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments.

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Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2017	\$ 25,000
2018	25,000
Total	<u>\$ 50,000</u>

Charter School Facilities Program

The Charter School has been approved by the State of California's Charter School Facilities Program for \$17,413,956 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of \$17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of \$8,706,978 and the other 50 percent through a grant in the amount of \$8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2016, was \$8,706,978.

NOTE 15 - OPERATING LEASE

Magnolia Science Academy Santa Ana entered into a lease agreement with Vineyard Christian Fellowship or Newport Beach on August 1, 2014, for the property located at 102 E. Baker Avenue, Costa Mesa, California for the sole purpose of operating the Charter School educational programs and related Charter School activities. Lease payments during 2015-2016 were \$229,179.

Future payments are as follows:

Year Ending June 30,	Facility Lease Payments
2017	\$ 228,000
2018	228,000
2019	228,000
Total	<u>\$ 684,000</u>

NOTE 16 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for the year ended June 30, 2016 and 2015, were \$60,000 and \$0, respectively.

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 17 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

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**NOTES TO FINANCIAL STATEMENTS
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The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$74,084 and \$36,202, respectively.

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California Public Employees Retirement System (CalPERS)**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$9,720 and \$3,585, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$40,971 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 18 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 19 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$30,976 and \$16,646, respectively, to CharterSAFE for services received. At June 30, 2016, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 20 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

DRAFT 12/02/2016

SUPPLEMENTARY INFORMATION

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016**

ORGANIZATION

Magnolia Science Academy Santa Ana (Charter Number 1686) was granted on August 1, 2014, by the California State Board of Education. The Charter School operates one school, grades six through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	19.20	19.44
Seventh and eighth	65.40	65.76
Ninth through twelfth	<u>58.73</u>	<u>59.22</u>
Total Regular ADA	<u>143.33</u>	<u>144.42</u>
Classroom based ADA		
Sixth	19.20	19.44
Seventh and eighth	65.40	65.76
Ninth through twelfth	<u>58.73</u>	<u>59.22</u>
Total Classroom based ADA	<u>143.33</u>	<u>144.42</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		64,940	180	N/A	Complied
Grade 7		64,940	180	N/A	Complied
Grade 8		64,940	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,940	180	N/A	Complied
Grade 10		64,940	180	N/A	Complied
Grade 11		64,940	180	N/A	Complied
Grade 12		64,940	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 8,291,101
Increase (Decrease) in:	
Intra-company receivable	2,759
Prepaid expenses and other current assets	(29,759)
Security deposits	27,000
(Increase) Decrease in:	
Accounts payable and accruals	834,658
Intra-company payable	(776,832)
Long-term obligations	<u>(50,006)</u>
Balance, June 30, 2016, Audited Financial Statement	<u><u>\$ 8,298,921</u></u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy Santa Ana
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA Santa Ana's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters**DRAFT 12/02/2016**

As part of obtaining reasonable assurance about whether MSA Santa Ana'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy Santa Ana
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

Report on State Compliance

We have audited Magnolia Science Academy Santa Ana's (the Charter School) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

MSA Santa Ana did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

DRAFT 12/02/2016

MSA Santa Ana does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

MSA Santa Ana does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA Santa Ana was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

MSA Santa Ana does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
Magnolia Science Academy Santa Ana
(A California Nonprofit Public Benefit Corporation)
Santa Ana, California

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Ana, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California
_____, 2016

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy Santa Clara
(A California Nonprofit Public Benefit Corporation)
Santa Clara, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Clara (MSA Santa Clara) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA Santa Clara's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA Santa Clara's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Santa Clara, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA Santa Clara's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA Santa Clara's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA Santa Clara's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Clara's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash	\$ 31,093	\$ 170,245
Accounts receivable	250,024	816,594
Intra-company receivable	20,440	-
Prepaid expenses and other current assets	-	2,854
Total Current Assets	<u>301,557</u>	<u>989,693</u>
Non-Current Assets:		
Security deposits	56,590	39,001
Fixed assets	256,588	250,536
Less: accumulated depreciation	<u>121,238</u>	<u>81,587</u>
Total Non-Current Assets	<u>191,940</u>	<u>207,950</u>
Total Assets	<u>\$ 493,497</u>	<u>\$ 1,197,643</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 451,911	\$ 232,517
Intra-company payable	728,968	380,000
Current portion of long-term obligations	<u>44,198</u>	<u>57,726</u>
Total Current Liabilities	<u>1,225,077</u>	<u>670,243</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	-	<u>28,863</u>
Total Liabilities	<u>1,225,077</u>	<u>699,106</u>
NET ASSETS		
Unrestricted (Deficit)	<u>(731,580)</u>	<u>498,537</u>
Total Liabilities and Net Assets	<u>\$ 493,497</u>	<u>\$ 1,197,643</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 709,898	\$ 3,084,298
Federal revenue	27,685	57,606
Other State revenue	400,173	130,109
Local revenue	5,197	76,909
Total Revenues	<u>1,142,953</u>	<u>3,348,922</u>
EXPENSES		
Program services:		
Salaries and benefits	1,284,015	2,077,763
Student services	91,966	54,889
Materials and supplies	13,177	46,113
Student nutrition	13,535	22,710
Special Education fee		
Other expenses	106,208	31,759
Subtotal	<u>1,508,901</u>	<u>2,233,234</u>
Management and general:		
Depreciation	39,651	11,496
Management fee	-	198,742
Occupancy	315,012	500,138
Operating expenses	509,506	273,575
Debt service	-	125
Subtotal	<u>864,169</u>	<u>984,076</u>
Total Expenses	<u>2,373,070</u>	<u>3,217,310</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>(1,230,117)</u>	<u>131,612</u>
NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>498,537</u>	<u>366,925</u>
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (731,580)</u>	<u>\$ 498,537</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ (1,230,117)	\$ 131,612
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	39,651	11,496
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	566,570	(397,811)
Intra-company receivable	(20,440)	-
Prepaid expenses and other current assets	2,854	(2,854)
Security deposits	(17,589)	(1,650)
Increase (Decrease) in liabilities		
Accounts payable and accruals	219,394	(71,651)
Intra-company payable	348,968	380,000
Deferred revenue	-	(182,667)
Net Cash Used in Operating Activities	<u>(90,709)</u>	<u>(133,525)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(6,052)</u>	<u>(85,062)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds, payments	<u>(42,391)</u>	<u>86,589</u>
CHANGE IN CASH	<u>(139,152)</u>	<u>(131,998)</u>
CASH, BEGINNING OF YEAR	<u>170,245</u>	<u>302,243</u>
CASH, END OF YEAR	<u>\$ 31,093</u>	<u>\$ 170,245</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Santa Clara (the Charter School) is a charter school located in Santa Clara, California that provides sixth through twelfth grade education to approximately 100 students. The Charter School was created under the approval of the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)****DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Related Entity

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 15 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)****DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all cash in banks and on hand cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)****DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$39,651 and \$11,496, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

Net Asset Classes

Magnolia Science Academy - Santa Clara is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy - Santa Clara consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the school.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016 and 2015, respectively, the Charter School has no designated balance.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA Santa Clara's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

NOTE 3 - CASH

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 31,093	\$ 31,211	\$ 170,245	\$ 203,017

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016, the Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$30,670 and \$197,796, respectively, in excess of insured limits.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
State principal apportionment	\$ 230,077	\$ 510,808
Federal receivable	15,951	5,359
State receivable	3,108	-
Lottery	-	41,673
Local receivable	<u>888</u>	<u>258,754</u>
Total Accounts Receivable	<u>\$ 250,024</u>	<u>\$ 816,594</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2016, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016, the Charter School had an intra-company receivable balance of \$20,440 from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>\$ 56,590</u>	<u>\$ 41,855</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Software and equipment	\$ 256,588	\$ 250,536
Less: accumulated depreciation	<u>(121,238)</u>	<u>(81,587)</u>
Total Fixed Assets	<u>\$ 135,350</u>	<u>\$ 168,949</u>

During the year ended June 30, 2016 and 2015, \$39,651 and \$11,946, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 16,552	\$ 19,750
Compensated absences	748	-
Vendor payables	70,118	168,541
Due to other agencies	3,178	44,226
State principal apportionment	<u>361,315</u>	<u>-</u>
Total Accounts Payable	<u>\$ 451,911</u>	<u>\$ 232,517</u>

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2016, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$728,968 and \$380,000, respectively, from the Foundation.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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JUNE 30, 2016**

NOTE 10 - LONG-TERM OBLIGATIONS**Chrome Books**

The Charter School entered into a capital lease to purchase 450 chrome books for \$128,744. The terms of the loan require 36 monthly payments of \$4,276, interest rate of 8.00 percent and with a maturity date June 30, 2017. The balance outstanding as of June 30, 2016, is \$44,198.

NOTE 11 - OPERATING LEASES

The Charter School leased its facilities in Santa Clara, California, under an operating lease that commenced August 1, 2015, and ended June 30, 2016, with a monthly payment of \$28,295. Total rent and maintenance expense during the year ended June 30, 2016, was \$314,625.

NOTE 12 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, is \$0 and \$198,742, respectively. The management fees incurred by MSA Santa Clara were not billed by the Foundation due to MSA Santa Clara being in a deficit net asset position during 2015-2016.

Intra-Company Loan

During 2015-2016, the board authorized a loan between Home Office to the Charter School for temporary financial hardship. As of June 30, 2016, the balance outstanding is \$728,968. Future repayment of the outstanding balance will be absorbed by the Home Office as part of the closeout procedures.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

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**NOTES TO FINANCIAL STATEMENTS
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The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$87,120 and \$127,177, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$7,140 and \$7,580, respectively.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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JUNE 30, 2016**

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$93,215 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation insurance, charter school liability insurance and medical, dental and vision insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$26,270 and \$45,820, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 16 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial.

On July 1, 2016, the Magnolia Educational Research Foundation voted to close MSA Santa Clara as of June 30, 2016. Management has implemented procedures as required in accordance with the California *Education Code* for the closeout of a charter school.

NOTE 17 - CLOSEOUT PROCEDURES

On July 1, 2016, the board of the Magnolia Educational and Research Foundation (MERF) voted to close the Magnolia Science Academy Santa Clara Charter School (MSA Santa Clara), effective, June 30, 2016, due to fiscal concerns. MERF acting as MSA Santa Clara's management organization (CMO) will be the responsible party for handling MSA Santa Clara closure. As part of the final audit, MSA Santa Clara is required to determine the net assets or liabilities and disclose required information.

1. The Charter School has an operating deficit of \$(1,230,117) in the 2015-2016 year and an overall deficit of \$(730,580) as of June 30, 2016;
2. The Charter School has outstanding restricted funds due back to government agencies in the amount of \$364,493;
3. MERF has inventoried and assigned a fair market value to all Charter School usable furnishings, equipment, and supplies and has, as per MERF Board approval, redistributed all usable furnishings, equipment, and supplies to other charter schools operated by MERF's corporation; the receiving charter schools have paid the fair market value to Charter School for receipt of all usable furnishings, equipment, and supplies it has received;
4. No donated materials and property were required to be returned;
5. All grants and restricted categorical funds have been identified and returned to their source according to the terms of the grant or state and federal law;
6. MERF has prepared and submitted final expenditure reports for any entitlement grants and has filed Final Expenditure Reports and Final Performance Reports, as appropriate;
7. A formal plan to resolve the transferring of all remaining assets and liabilities of MSA SC will be completed during 2016-2017, to transfer available surplus reserves not restricted to absorb the overall deficit related to legitimate educational and operational expenses incurred in closing of this charter school, The Charter School's bank accounts for MSA SC were closed with approximately \$5,000 being transferred into MERF's main account;
8. Remaining loan agreements were assigned to MERF and any additional cost incurred subsequently will be recorded in MERF's financial records;
9. MERF is a solvent continuing nonprofit entity operating other charter schools and will not have another charter school, legal entity, or the Board of Directors, or another individual assume liabilities of the closed Charter School;

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

10. Student and Employee records maintenance has been completed in accordance with required laws and *Education Code*.

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy Santa Clara (Charter School No. 1116) was granted on July 9, 2009, by the Santa Clara County Office of Education. The Charter School operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	16.69	16.67
Seventh and eighth	54.42	54.23
Ninth through twelfth	24.14	24.36
Total Regular ADA	<u>95.25</u>	<u>95.26</u>
Classroom based ADA		
Sixth	16.69	16.67
Seventh and eighth	54.42	54.23
Ninth through twelfth	24.14	24.36
Total Classroom based ADA	<u>95.25</u>	<u>95.26</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		65,300	176	N/A	Complied
Grade 7		65,300	176	N/A	Complied
Grade 8		65,300	176	N/A	Complied
Grade 9	64,800				
Grade 10		65,300	176	N/A	Complied
Grade 11		65,300	176	N/A	Complied
Grade 12		65,300	176	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE (DEFICIT)	
Balance, June 30, 2016, Unaudited Actuals	\$ (728,323)
Increase in:	
Accounts payable	<u>(3,257)</u>
Balance, June 30, 2016,	
Audited Financial Statement (Deficit)	<u><u>\$ (731,580)</u></u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
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**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy Santa Clara
(A California Nonprofit Public Benefit Corporation)
Westminster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Clara (MSA Santa Clara) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA Santa Clara's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters**DRAFT 12/02/2016**

As part of obtaining reasonable assurance about whether MSA Santa Clara'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Santa Clara's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Clara's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy Santa Clara
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on State Compliance

We have audited Magnolia Science Academy Santa Clara's (MSA Santa Clara) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of MSA Santa Clara's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA Santa Clara's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA Santa Clara's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA Santa Clara's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Santa Clara complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA Santa Clara's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

MSA Santa Clara did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

DRAFT 12/02/2016

MSA Santa Clara does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

MSA Santa Clara does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA Santa Clara was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

MSA Santa Clara does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA Santa Clara did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

**MAGNOLIA SCIENCE ACADEMY SANTA CLARA
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Westminster, California

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Ana for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

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DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of MSA San Diego (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

DRAFT 12/02/2016

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA San Diego, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The prior year comparative information has been derived from MSA San Diego's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA San Diego's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic 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 _____, 2016, on our consideration of the MSA San Diego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2015)

JUNE 30, 2016

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 761,775	\$ 382,157
Restricted assets		
Cash held for restricted purposes	106,607	118,998
Accounts receivable	308,121	248,652
Intra-company receivable	10,064	-
Prepaid expenses and other current assets	8,521	-
Total Current Assets	<u>1,195,088</u>	<u>749,807</u>
Non-Current Assets		
Fixed assets	644,168	586,778
Less: accumulated depreciation	302,836	258,217
Total Non-Current Assets	<u>341,332</u>	<u>328,561</u>
Total Assets	<u>\$ 1,536,420</u>	<u>\$ 1,078,368</u>
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	\$ 190,591	\$ 85,518
Intra-company payable	19,442	202,149
Deferred revenue	-	2,940
Total Current Liabilities	<u>210,033</u>	<u>290,607</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>151,806</u>	<u>151,806</u>
Total Liabilities	<u>361,839</u>	<u>442,413</u>
NET ASSETS		
Unrestricted	<u>1,174,581</u>	<u>635,955</u>
Total Liabilities and Net Assets	<u>\$ 1,536,420</u>	<u>\$ 1,078,368</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	\$ 2,888,409	\$ 2,243,691
Federal revenue	97,228	93,377
Other State revenue	602,791	361,721
Local revenue	84,976	99,896
Total Revenues	<u>3,673,404</u>	<u>2,798,685</u>
EXPENSES		
Program services:		
Salaries and benefits	1,985,116	1,834,111
Student services	128,325	132,745
Materials and supplies	172,634	27,733
Student nutrition	44,650	38,481
Other expenses	105,525	10,249
Subtotal	<u>2,436,250</u>	<u>2,043,319</u>
Management and general:		
Depreciation	44,619	37,442
Management fee	334,759	416,373
Occupancy	305	-
Operating expenses	318,845	110,824
Interest	-	82
Subtotal	<u>698,528</u>	<u>564,721</u>
Total Expenses	<u>3,134,778</u>	<u>2,608,040</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>538,626</u>	<u>190,645</u>
NET ASSETS, BEGINNING OF YEAR	<u>635,955</u>	<u>445,310</u>
NET ASSETS, END OF YEAR	<u>\$ 1,174,581</u>	<u>\$ 635,955</u>

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2015)

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 538,626	\$ 190,645
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	44,619	37,442
Changes in operating assets and liabilities:		
Decrease in assets		
Accounts receivable	(59,469)	54,002
Intra-company receivable	(10,064)	-
Prepaid expenses and other current assets	(8,521)	-
Increase (Decrease) in liabilities		
Accounts payable and accruals	105,073	(50,367)
Intra-company payable	(182,707)	-
Deferred revenue	(2,940)	423
Net Cash Provided by Operating Activities	<u>424,617</u>	<u>232,145</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(57,390)</u>	<u>(100,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	<u>-</u>	<u>(20,000)</u>
NET INCREASE IN CASH	<u>367,227</u>	<u>111,536</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>501,155</u>	<u>389,619</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 868,382</u>	<u>\$ 501,155</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 82</u>

The accompanying notes are an integral part of these financial statements.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)****DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 - ORGANIZATION AND MISSION**Magnolia Science Academy San Diego**

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (the Charter School) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 420 students. The School offers a rich academic program with elective classes, tutoring, and after school clubs. It was the most improved middle school according to all API scores in the year 2007. The School was created under the approval of the San Diego Unified School District (SDUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

The Charter School is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as the Charter School's Charter School Management Organization (CMO) that manages the Charter School's nonacademic operation such as financial, general administration, and human resource management. The Charter School's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 16 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2016

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$44,619 and \$37,442, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Net Asset Classes

Magnolia Science Academy San Diego is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as designated assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2016 and 2015, the amount of restricted assets was \$106,607 and \$118,998, respectively. Also, a designated balance of \$80,491 for California Clean Energy Jobs Act and Educator Effectiveness for the 2016 fiscal year.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

Prior Year Comparative Financial Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MSA San Diego's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2016 and 2015, consisted of the following:

	June 30, 2016		June 30, 2015	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 693,698	\$ 701,240	\$ 280,001	\$ 334,625

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$602,482 and \$326,019 in excess of insured limits.

NOTE 4 - RESTRICTED CASH

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2016 and 2015, was comprised of the following:

	2016	2015
Current restricted cash for the Charter School Facilities Program	\$ 106,607	\$ 118,998

Restricted cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$86,607 and \$101,700 in excess of insured limits.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

Investment Type	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Treasury Investment Pool	\$ 68,077	\$ 68,100	\$ 102,156	\$ 102,103

Deposits with county treasurer are an external investment pool sponsored by the County of San Diego. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Charter School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Charter School manages its exposure to interest rate risk by investing in the County Pool.

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

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Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 68,100	270

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 102,103	253

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 182,586	\$ 161,295
Federal receivable	60,717	26,481
State receivable	27,168	27,394
Lottery	37,650	33,482
Total Accounts Receivable	\$ 308,121	\$ 248,652

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NOTE 8 - INTRA-COMPANY RECEIVABLE

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$10,064 and \$0, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>8,521</u>	<u>\$ -</u>

NOTE 10 - FIXED ASSETS

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Software and equipment	\$ 402,163	\$ 402,163
Work in progress	<u>242,005</u>	<u>184,615</u>
Subtotal	644,168	586,778
Less: accumulated depreciation	<u>(302,836)</u>	<u>(258,217)</u>
Total Fixed Assets	<u>\$ 341,332</u>	<u>\$ 328,561</u>

During the year ended June 30, 2016 and 2015, \$44,619 and \$37,442, respectively, was charged to depreciation expense.

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NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 28,984	\$ 36,569
Compensated absences	24,719	-
Vendor payables	100,029	27,694
Due to other agencies	<u>36,859</u>	<u>21,255</u>
Total Accounts Payable	<u>\$ 190,591</u>	<u>\$ 85,518</u>

NOTE 12 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$19,442 and \$202,149, respectively, from the Foundation.

NOTE 13 - LOANS PAYABLE

Charter School Facilities Program

The Charter School has been approved by the State of California's Charter School Facilities Program for \$3,036,122 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of \$3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of \$1,518,061 and the other 50 percent through a grant in the amount of \$1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from the Charter School's State School Fund Apportionments. The outstanding loan balance as of June 30, 2016, was \$151,806.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 - FACILITIES USE AGREEMENT

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating the Charter School education programs and related Charter Schools activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$86,652.

NOTE 15 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, is \$334,759 and \$214,224, respectively.

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

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(A California Nonprofit Public Benefit Corporation)**DRAFT 12/02/2016****NOTES TO FINANCIAL STATEMENTS**
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Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$131,926 and \$102,985, respectively.

California Public Employees Retirement System (CalPERS)**Plan Description**

Qualified employees are eligible to participate in the Charter School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

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JUNE 30, 2016

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$14,148 and \$6,793, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$82,130 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 15 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

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NOTES TO FINANCIAL STATEMENTS
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Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between The Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$23,583 and \$32,321, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 17 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

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SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

Magnolia Science Academy San Diego (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District. The Charter School operates one school, grades six through eight.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Revised Second Period Report	Annual Report
Regular ADA		
Sixth	129.24	129.60
Seventh and eighth	<u>276.37</u>	<u>275.63</u>
Total Regular ADA	<u><u>405.61</u></u>	<u><u>405.23</u></u>
Classroom based ADA		
Sixth	129.24	129.60
Seventh and eighth	<u>276.37</u>	<u>275.63</u>
Total Classroom based ADA	<u><u>405.61</u></u>	<u><u>405.23</u></u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		64,613	180	N/A	Complied
Grade 7		64,613	180	N/A	Complied
Grade 8		64,613	180	N/A	Complied

See accompanying note to supplementary information.

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**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2016**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2016, Unaudited Actuals	\$ 1,173,620
Increase (Decrease) in:	
Intra-company receivable	10,064
Prepaid expenses and other current assets	(10,064)
Decrease in:	
Accounts payable and accrued payroll	<u>961</u>
Balance, June 30, 2016, Audited Financial Statement	<u><u>\$ 1,174,581</u></u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

DRAFT 12/02/2016

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

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 local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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INDEPENDENT AUDITOR'S REPORTS

DRAFT 12/02/2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy San Diego (MSA San Diego) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA San Diego's basic financial statements, and have issued our report thereon dated _____, 2016.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA San Diego'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

Report on State Compliance

We have audited Magnolia Science Academy San Diego's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

DRAFT 12/02/2016**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine the Charter School's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

MSA San Diego did not receive funding for the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

DRAFT 12/02/2016

MSA San Diego does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

MSA San Diego does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA San Diego was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

MSA San Diego does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA San Diego did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2016

DRAFT 12/02/2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

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STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

DRAFT 12/02/2016

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no audit findings reported in the prior year's schedule of financial statement findings.

DRAFT 12/02/2016

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

In planning and performing our audit of the financial statements of Magnolia Science Academy San Diego, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California
_____, 2016