



Magnolia Public Schools

Board Retreat

Date and Time

Sunday December 15, 2019 at 9:00 AM PST

Location

MPS Home Office: 250 E. 1st St. Ste. 1500 Los Angeles, CA 90012

Access to the Board Retreat: Any interested parties or community members from remote locations may attend the meeting in person or remotely by using the following call-in numbers; Dial:1.844.572.5683 Code: 1948435#

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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.

Board Members:

Mr. Haim Beliak, Chair
Dr. Umit Yapanel, Vice-Chair
Mr. Serdar Orazov
Dr. Salih Dikbas
Ms. Diane Gonzalez
Ms. Sandra Covarrubias
Mr. Shohrat Geldiyev

CEO & Superintendent:

Mr. Alfredo Rubalcava

Agenda

	Purpose	Presenter	Time
I. Opening Items			9:00 AM
A. Call the Meeting to Order			1 m
B. Record Attendance and Guests			1 m
C. Pledge of Allegiance			1 m
D. Approval of Agenda	Vote		1 m

E. Public Comments			5 m
II. Information/Discussion Items			9:09 AM
A. CA School Dashboard & Overview of Academic Performance Org Wide	Discuss	E. Acar & D. Yilmaz	60 m
B. Progress of 2019-2020 Academic Goals for Each Magnolia Science Academy	Discuss	Principals	300 m
C. Academic Update	FYI	Erdinc Acar	5 m
D. Accountability Items (SARC and LCAP)	FYI	David Yilmaz	10 m
E. Discussion of MSA- Santa Ana 2018-19 Audit Finding Action Plan	Discuss	N. Montijo	15 m
III. Closed Session			3:39 PM
A. Public Announcement of Closed Session	FYI	Haim Beliak	1 m
B. Public Employment- Two Matters	Discuss	Alfredo Rubalcava	45 m
C. Report Out From Closed Session	FYI	Haim Beliak	1 m
IV. Action Items			4:26 PM
A. Approval of Computer Teacher Position at Magnolia Science Academy-7	Vote	Meagan Wittek	5 m
B. Approval of DirectEd Contract for Magnolia Science Academy-7	Vote	Erdinc Acar	5 m
C. Approval of Independent Contractor Contract Extension- Noflin Enterprises	Vote	Patrick Ontiveros	5 m
D. Approval of Resolution of Material Revision to Merge MSA-4 into MSA-6	Vote	Alfredo Rubalcava	5 m
E. Approval of FY 2018-19 Audited Financial Reports	Vote	Nanie Montijo	5 m
F. Approval of Conflict of Interest Code Per Fair Political Practice Commission Request	Vote	Alfredo Rubalcava	5 m
G. Approval of New Intern Position	Vote	Ismael Soto	5 m
V. Closing Items			5:01 PM
A. Adjourn Meeting	Vote		

Cover Sheet

CA School Dashboard & Overview of Academic Performance Org Wide

Section: II. Information/Discussion Items
Item: A. CA School Dashboard & Overview of Academic Performance Org Wide
Purpose: Discuss
Submitted by:
Related Material: II A Fall '19 CA Dashboard.pdf



Board Agenda Item #	II A- Information Item
Date:	December 15, 2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	David Yilmaz, Chief Accountability Officer
RE:	Fall 2019 CA School Dashboard Updates

Proposed Board Recommendation

N/A

Background

Please see the attached report for MPS' performance on the Fall 2019 CA School Dashboard. The report also includes technical information and tips for the Board in order to better understand how the Dashboard works and how to measure MPS' performance more accurately and compare it with the performance of other schools, the districts and the state. This report will also be used with the school leadership teams for training, reflection, and LCAP development purposes.

Budget Implications

N/A

How Does This Action Relate/Affect/Benefit All MSAs?

N/A

Name of Staff Originator:

David Yilmaz, Chief Accountability Officer

Exhibits (Attachments):

- Report on MPS' Performance on the Fall 2019 California School Dashboard
- School Performance Overview Report (for each MSA)



Report on Magnolia Public Schools' (MPS) Performance on the Fall 2019 CA School Dashboard

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MPS' Performance on the Fall 2019 CA School Dashboard

California's accountability system is based on multiple measures that assess how local educational agencies (LEAs) and schools are meeting the needs of their students. Performance on these measures is reported on the California School Dashboard (Dashboard) available at www.caschooldashboard.org. To help parents and educators identify strengths and areas for improvement, California reports how districts, schools, and student groups are performing across state and local measures. For state measures, performance is based on two factors: Current year (2018-19) results, and whether results improved from the prior year (2017-18).

The purpose of this report is to provide our stakeholders with Magnolia Public Schools' (MPS) performance on the Fall 2019 CA School Dashboard. The Dashboard website provides a 4-page PDF report for performance overview of each school. It also provides an additional 20+page detailed report with all state and local indicators and detailed student group performance. These Dashboard reports can be found in the appendices.

The Dashboard provides a report for each school but there is no aggregate report for a charter school organization with multiple schools. In order to view MPS' performance on one page with each school side by side, we have created an internal accountability page to display the Dashboard data so that we can easily compare one MSA with another, with the districts and the state. Having the data on one internal Dashboard page also allows us to see the larger organizational picture including student group comparisons, e.g., how Students with Disabilities performed at one MSA vs. another. This report includes charts and graphs from our internal Dashboard page which we use during our meetings with principals and deans for discussion, best practice sharing, and planning next steps.

One other report MPS finds useful and has included in this report is CCSA's academic accountability report which includes each charter school's statewide rank, similar students rank, percentage of students who are college/career prepared (for high schools), and 3-year growth (for elementary/middle schools) based on CCSA's metrics. CCSA provides advocacy support for renewal or replication to charter schools that pass CCSA's filters.

Beginning with the 2019 Dashboard, Charters are eligible for identification under the LCFF for Differentiated Assistance. Schools eligible for this support will be announced in January. The goal is to help LEAs and their schools meet the needs of each student they serve, with a focus on building local capacity to sustain improvement and to effectively address disparities in opportunities and outcomes.

Charter renewal criteria have also been updated by the passage of AB 1505. The schoolwide Dashboard performance on all the state indicators along with schoolwide and student group comparisons with the state averages will now be used as the main criteria for two, five or seven-year renewals.

Before diving into MPS' performance data on the Fall 2019 CA School Dashboard, we recommend that you understand some details about the Dashboard in order to be able to use it more accurately to measure MPS school performance and compare with the performance of other schools, districts and the state. You can find resources with detailed information, flyers, videos, and links to instructional materials that support the Dashboard at

<https://www.caschooldashboard.org/about/resources>. More technical resources, including data files and manuals, are also available at the “California School Dashboard and System of Support” page:

<https://www.cde.ca.gov/ta/ac/cm/>. This report will provide some excerpts from those resources as well as internal guides and pages developed by the MPS Accountability Department.

The Dashboard and the Eight State Priorities

The Dashboard is a powerful online tool to help districts and schools identify strengths and weaknesses and pinpoint student groups that may be struggling. It reports performance and progress on both state and local measures:

- State measures apply to all LEAs, schools, and student groups and are based on data that is collected consistently across the state.
- Local measures apply at the LEA and charter school level and are based on data collected at the local level.

The state and local measures are drawn from the ten priority areas of the [Local Control Funding Formula \(LCFF\)](#), which was passed in 2013. Table 1 lists each priority area and its corresponding state and/or local measure:

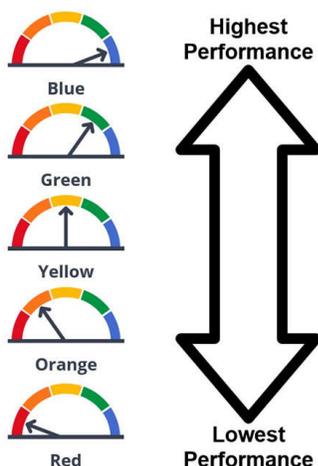
Table 1: The State and Local Measures for Each Local Control Funding Formula Priority Areas

Priority Areas	State Indicator	Local Indicator
Priority 1: Basic Services and Conditions at schools	N/A	Text books availability, adequate facilities, and correctly assigned teachers
Priority 2: Implementation of State Academic Standards	N/A	Annually report on progress in implementing the standards for all content areas
Priority 3: Parent Engagement	N/A	Annually report progress toward: (1) seeking input from parents/guardians in decision making; and (2) promoting parental participation in programs
Priority 4: Student Achievement	<ul style="list-style-type: none"> • Academic Performance (Grades 3–8 and Grade 11) • English Learner Progress 	N/A
Priority 5: Student Engagement	<ul style="list-style-type: none"> • Graduation Rate • Chronic Absenteeism 	N/A

Priority 6: School Climate	<ul style="list-style-type: none"> Suspension Rate 	Administer a Local Climate Survey every other year
Priority 7: Access to a Broad Course of Study		Annually report progress on the extent students have access to, and are enrolled in, a broad course of study.
Priority 8: Outcomes in a Broad Course of Study	<ul style="list-style-type: none"> College/Career 	N/A

These priority areas form the basis for California's integrated accountability system, which meets both state and federal requirements. Different criteria are used to **determine and report performance** for the state and local measures. For the methodology for measuring performance on the local measures, please see the local measures at <https://www.cde.ca.gov/ta/ac/cm/localindicators.asp>.

Performance on the **state measures** is based on data from both the current and prior years. Any LEA, school, or student group with at least 30 students in both the current and prior year receives a **performance level** for each applicable state measure. There are **five** performance levels, and each is assigned a different color: Red



is the lowest performance level, Orange is the second lowest, Yellow is the middle point, Green is the second highest, and Blue is the highest performance level.

On the Dashboard, a school's, LEA's, or student group's performance on a state measure is graphically displayed by a gauge, that is broken into five different colored segments, to represent the five levels of performance. An arrow points to the color that that corresponds to the performance for that measure. The picture below illustrates the five analog gauge meters used on the California School Dashboard.

Each gauge meter is a half-circle dial that has 5 segments. Each segment represents a different performance level. The colors read from top to bottom: Blue, Green, Yellow, Orange, and Red. Blue represents the highest performance level while Red represents the lowest performance level. A needle indicates the performance level for the measure.



Getting to Know the California School Dashboard

The California School Dashboard (<https://www.caschooldashboard.org>) is an online tool designed to help communities across the state access important information about K–12 schools and districts. The Dashboard features easy-to-read reports on multiple measures of school success. The Dashboard is just one step in a series of changes that have raised the bar for student learning, transformed testing, and increased the focus on equity.

11 Measures of School Success

State Measures

Six state measures allow for comparisons across schools and districts based on information collected statewide.

- **High School Graduation Rate**
- **Academic Performance**
- **Suspension Rate**
- **English Learner Progress**
- **College/Career Readiness**
- **Chronic Absenteeism**

Results are presented for all districts, schools, and defined student groups (e.g., racial groups, low income, English learners, homeless, foster youth, students with disabilities).

Schools and districts receive one of five color-coded performance levels on each of the six state measures.



The performance level (color) is based on current and prior year data.

Local Measures

Five local measures are based on information collected by districts, county offices of education, and charter schools.

- **Basic Conditions**
 - Teacher qualifications, safe and clean buildings, textbooks for all students
- **Implementation of Academic Standards**
- **School Climate Surveys**
 - Student safety, connection to the school
- **Parent Involvement and Engagement**
- **Access to Courses**

Districts receive one of three ratings for each of the four local measures:

- Met
- Not Met
- Not Met for Two Years

School and student group information is not available for local measures.

For more information, please visit the California Accountability Model & School Dashboard web page at <https://www.cde.ca.gov/ta/ac/cm/index.asp>.

October 2018

How Do You Get a Performance Level (Color)?

The “California School Dashboard Technical Guide” provides technical information on California’s accountability system, specifically in regards to the state and local indicators reported in the Dashboard. The guide is intended for accountability coordinators at LEAs to access the calculation methodology and rules used to produce each of the state indicators. (Source: <https://www.cde.ca.gov/ta/ac/cm/documents/dashboardguide18.pdf>)

For an LEA, school, or student group to receive a performance level (or color), they must have at least two years of data. The most current year of data are used to determine **Status**. The prior year data is used to determine **Change**. An LEA, school, or student group’s current year of data are used to assign a Status level for each applicable indicator. For each state indicator, there are five Status levels:

Five Status Levels
Very High
High
Medium
Low
Very Low

“Change,” in the California Model, is defined as the difference in results from the current year to the prior year: **Status minus Prior Year = Change**. There are five Change levels for each state indicator:

Five Change Levels
Increased Significantly
Increased
Maintained
Declined
Declined Significantly

The combination of the five Status levels and the five Change levels results in 25 performance levels displayed in a five-by-five colored table. See Figure 1 for an example of a five-by-five colored table. Each of the 25 performance levels are represented by one of five colors:

Figure 1 from the Technical Guide:

Five-by-Five Colored Tables

As described earlier, an LEA, school, or student group's performance level (color) is determined through the use of a five-by-five colored table. For instance, an LEA or school with a "High" in **Status** and an "Increased" in **Change** will receive an overall performance level of **Green** for most of the state indicators. See Figure 2 below.

Figure 2: How to Get a Performance Level (Color)

Level	Declined Significantly from Prior Year	Declined from Prior Year	Maintained from Prior Year	*Increased from Prior Year	Increased Significantly from Prior Year
Very High in Current Year	Yellow	Green	Blue	*Blue	Blue
*High in Current Year	*Orange	*Yellow	*Green	*Green	Blue
Medium in Current Year	Orange	Orange	Yellow	Green	Green
Low in Current Year	Red	Orange	Orange	Yellow	Yellow
Very Low in Current Year	Red	Red	Red	Orange	Yellow

Automatic Assignment of Orange

LEAs and schools are automatically assigned an Orange performance level in the following instances:

- **Academic Indicator:** LEAs or schools that fail to test at least ten percent of their testing population are automatically assigned an Orange performance level.
- **Chronic Absenteeism and Suspension Rate Indicators:** LEAs and schools that did not certify (or submit) their attendance data or discipline data in the CALPADS for the current or prior Dashboard cycles are automatically assigned an Orange performance level.
- **English Learner Progress:** For the 2019 Dashboard, LEAs and schools that failed to meet the 95 percent participation rate criteria are automatically assigned an ELPI Status of 'Low'.

Exercise: Use the following two tables -- the 5-by-5 table for the graduation rate indicator and the Fall 2019 status and change table for MPS -- to determine the performance colors of MPS, the comparison districts, and the state.

5-by-5 Table for the Graduation Indicator:

		Graduation Rate (9-12) - All Students Report				
		Graduation Change				
		Declined Significantly by greater than 5.0%	Declined by 1.0% to 5.0%	Maintained Declined or increased by less than 1.0%	Increased by 1.0% to less than 5.0%	Increased Significantly by 5.0% or greater
Graduation Status	Very High 95.0% or greater		1	3	2	
	High 90.5% to less than 95.0%					
	Medium 80.0% to less than 90.5%					
	Low 68.0% to less than 80.0%					
	Very Low Less than 68.0%					

Fall 2019 MPS Graduation Rates:

Graduation Rate (9-12) Status and Change				
All Students				
	Student Performance	Number of Students	Status	Change
MSA-1	Blue	71	Very High 97.2%	Declined -2.8%
MSA-2	Blue	42	Very High 97.6%	Increased +7.9%
MSA-3	Blue	49	Very High 95.9%	Maintained +0.5%
MSA-4	-	41	Very High 97.6%	Increased +1.4%
MSA-SA	-	36	High 91.7%	Declined -1.2%
MPS	Blue	239	Very High 96.2%	Maintained +0.6%
MPS-LA	Blue	203	Very High 97.0%	Increased +1.1%
LAUSD	Orange	31,647	Medium 81.2%	Declined -1.7%
SDUSD	Yellow	7,007	Medium 89.2%	Maintained -0.3%
SAUSD	Yellow	3,671	Medium 87.8%	Maintained -0.6%
STATE	Green	509,504	Medium 85.7%	Increased +2.0%

What Is DFS? How Is It Different than the Proficiency Rate?

All state indicators on the Dashboard except for the Academic Indicator (**ELA/Literacy and math**) are measured using “percentages” and the Dashboard compares the current year percentage (status) to prior year percentage (change). For example; MSA-2 has a graduation rate of 97.6% as its status and the change from prior year is +7.9%. However, the Academic Indicator that measures school performance in ELA and math does not use percentages or percent proficiency rates. While CAASPP scores are still released in terms of “percent proficiency” and historically schools have been compared to each other in terms of proficiency rates, the most significant of which has been occurring during the charter renewal process, the CDE has been trying to promote the concept of **Distance from Standard (DFS)** as an alternative, more inclusive method in measuring school progress in ELA and math.

Excerpt from the Technical Guide:

DFS for Smarter Balanced Assessments

The DFS represents the distance between a student’s score on the SBAC and the **Standard Met** Achievement Level threshold (i.e., the lower threshold of the scale score range for Level 3). The scale score ranges for the SBAC vary by content area—ELA and mathematics—and grade level and are available in Appendix D.

The calculation uses all available scale scores to provide a more precise measure of an LEA’s and school’s status and progress. Each student’s DFS is calculated separately and then all of the distances are combined to determine an average. The average distance is calculated for each LEA, school, and student group. These results will show which areas are in need of improvement and the extent to which the average student score falls short of, or exceeds, the Level 3 threshold.

Because the scale score ranges for each performance level *differ for each grade level*, it is important to compare each student’s ELA and mathematics scores against the Level 3 scale score for the appropriate grade. For example:

- In grade five, the scale scores for ELA range from 2,201 to 2,701. The scale scores for mathematics range from 2,219 to 2,700. Within each range, there are four distinct achievement levels. See Table 12 on the following page.

Table 12: Grade Five Scale Score Range for SBAC in ELA and Mathematics

Achievement Levels	Level 1: Standard Not Met	Level 2: Standard Nearly Met	Level 3: Standard Met	Level 4: Standard Exceeded
Grade 5 ELA Scale Score Ranges	2201–2441	2442–2501	2502–2581	2582–2701
Grade 5 Math Scale Score Ranges	2219–2454	2455–2527	2528–2578	2579–2700

As noted in Table 12, above:

- For ELA, the lowest scale score for Level 3 is 2,502. Each grade five ELA assessment score is compared against this fixed point to obtain the Distance from Standard.
- For mathematics, the lowest scale score for Level 3 is 2,528. Each grade five mathematics assessment score is compared against this fixed point to obtain the Distance from Standard.

Table 13 below provides examples of how the DFS is calculated for the SBAC.

Table 13: Examples of Calculating the DFS for Grade 5 Student

Student	Student's Score on the SBAC	SBAC Scale Score Range for Level 3	Distance from Standard (DFS)
Grade 5 Student 1	ELA Score: 2552	ELA Scale Score Range: 2502 – 2581	$2552 \text{ minus } 2502 = 50 \text{ points}$ The student scored 50 points above the lowest possible Level 3 scale score in Grade 5 ELA. The DFS is positive 50 points.
Grade 5 Student 2	Math Score: 2505	Math Scale Score Range: 2528 – 2578	$2505 \text{ minus } 2528 = -23 \text{ points}$ The student scored 23 points below the lowest possible Level 3 scale score in Grade 5 mathematics. The DFS is negative 23 points.

Calculate DFS for LEA, School, or Student Group

Once the DFS is calculated for each student, all DFS calculations are aggregated and averaged together to determine the DFS for the LEA, school, or student group.

Example 1: Average DFS

MSA-1 had 359 students in grades 3-8 and 11 who were tested in math in 2019. When each student's DFS was calculated and all students' DFS were aggregated, the school had an average DFS of 43.1 points below standard in math. (Note: State target for the Medium status is 25 points below standard.)

Math:

All Students				
	Student Performance	Number of Students	Status	Change
MSA-1	Orange	359	Low 43.1 points below standard	Maintained +0.1 points
MSA-2	Yellow	287	Low 60.8 points below standard	Increased +5.6 points

Example 2: Proficiency Rates

SBAC Historical Proficiency Rates - MATH (3-8,11)						
	2015	2016	2017	2018	2019	Change (2018 to 2019)
MSA-1	24%	31%	29.61%	35.06%	30.13%	-4.93%
MSA-2	26%	23%	23.87%	25.58%	27.87%	2.29%

As expected, the proficiency rates of MSA-1 and MSA-2 you see above are different numbers than the DFS because proficiency rate is the percentage of students who are proficient, or in other words, percentage of students who have scored Level 3 or Level 4 on SBAC, regardless of their actual score within Level 3 or 4. Proficiency rate, by itself, also does not give much information about students who are in Levels 1 and 2 and how close they are to proficiency. A student's improvement from Level 1 to Level 2 or from Level 3 to Level 4 over a year does not have any impact on the proficiency rate. What matters for the proficiency rate is being proficient or not. However, the Dashboard takes into account each and every student's scale score and its distance from standard (i.e., cut-off score for Level 3) to provide an average distance for the school. Unlike the proficiency rate, if a student at Level 1 improves his/her distance to the Level 3 cut-score or if a student at Level 4 declines his/her distance from the cut-score, those changes have an impact on the average DFS. This shift in measurement has been developed in response to the need to focus on the growth of each and every student and not just a focus on students at the cusp of becoming proficient.

Example 3: DFS vs. Proficiency

School X has shown the following performance on the 2018 and 2019 SBAC math assessments. Did this school show growth on the Dashboard Academic Indicator for math?

CAASPP Proficiency Rates:

2018 SBAC – Math – All Students - Proficiency	2019 SBAC – Math – All Students - Proficiency
Level 1 – 35 students	Level 1 – 10 students
Level 2 – 15 students	Level 2 – 45 students
Level 3 – 40 students	Level 3 – 20 students
Level 4 – 10 students	Level 4 – 25 students
2018 Proficiency Rate: 50% (Levels 3 and 4)	2019 Proficiency Rate: 45% (Levels 3 and 4)

In 2019, School X has fewer students in Level 1, which indicates that underachieving students at Level 1 improved to Level 2 or above (due to intervention programs, etc.) The school also has more students at Level 4, an indication of more students performing at the top level (due to GATE programs, etc.) However, when only proficiency rates are compared, the school is considered declining. **Is proficiency rate alone a sufficient metric in measuring school performance?**

Distance from Standard (DFS) Calculations:

2018 SBAC – Math – Distance from Standard (DFS)	2019 SBAC – Math – Distance from Standard (DFS)
Grade 6: 35 students - Average DFS: 40 points below standard	Grade 6: 35 students - Average DFS: 38 points below standard
Grade 7: 35 students - Average DFS: 30 points below standard	Grade 7: 35 students - Average DFS: 26 points below standard
Grade 8: 30 students - Average DFS: 20 points below standard	Grade 8: 30 students - Average DFS: 17 points below standard
Average DFS: $(35 \times -40 + 35 \times -30 + 30 \times -20) / 100 = -30.5$ (30.5 points below standard)	Average DFS: $(35 \times -38 + 35 \times -26 + 30 \times -17) / 100 = -27.5$ (27.5 points below standard) Change from 2018: -27.5 minus $-30.5 = +3$ points
Status: Low (30.5 points below standard)	Change: Increased (+3 points)
	Performance Color: Yellow

Regardless of the proficiency rates, the Dashboard recognizes the school's improvement in its average distance from standard by 3 points. Each student's scale score had a direct impact on this result. While the school's overall count of proficient students decreased by 5 students, each student, on the average, improved by getting closer to the proficiency cut score in the new grade level (if his/her scale score was below standard) or becoming more advanced (if his/her scale score was already above standard).

5-by-5 Table for the Academic Indicator - Math:

		Mathematics (3-8,11) - All Students Report				
		Change in Average Distance from Standard				
		Declined Significantly by more than 15 points	Declined by 3 to 15 points	Maintained Declined by less than 3 points or increased by less than 3 points	Increased by 3 to less than 15 points	Increased Significantly by 15 points or more
Average Distance from Standard (Status)	Very High 35 points or higher					
	High Zero to 34.9 points				SD	
	Medium -25 points to less than zero					5*
	Low -25.1 to -95 points		3	1, 6	2, 7, Bell, SA	
	Very Low -95.1 points or lower	4				

Can We Compare Schools by Their Colors?

Direct comparison of MPS' performance levels (colors) with the colors of other schools, such as resident schools, may be misleading and should be done with caution because color depends on both "status" and "change". A school with a higher Status level that maintained or declined its scores may be assigned a lower performance color than a school with a lower Status level that increased its scores. While color is important, Status should be treated as equally significant for comparison purposes, if not more. See the example below for clarification.

		English Language Arts/Literacy (3-8,11) - All Students Report				
		Change in Average Distance from Standard				
		Declined Significantly by more than 15 points	Declined by 3 to 15 points	Maintained Declined by less than 3 points or increased by less than 3 points	Increased by 3 to less than 15 points	Increased Significantly by 15 points or more
Average Distance from Standard (Status)	Very High 45 points higher					
	High 10 to 44.9 points					SD
	Medium -5 points to +9.9 points					
	Low -5.1 to -70 points	3, 4	1, 6, SA	7	Bell, 5*	2
	Very Low -70.1 points or lower					

Example 1:

Assume School A has the following Status, Change and Performance color in ELA/Literacy:

Status	Change	Performance Color
Low 10 points below standard	Maintained +2.9 points	Orange

Note that the business rule for the ELA indicator for Low status is -70 to -5.1 points (DFS), and for change, less than 3 points change is considered as Maintained. **Low** (Status) and **Maintained** (Change) combine to yield an **Orange** performance color on the Dashboard.

Assume School B has the following Status, Change and Performance color in ELA/Literacy:

Status	Change	Performance Color
Low 70 points below standard	Increased +3 points	Yellow

School B has a much lower average DFS compared with School A (70 points vs. 10 points below standard); difference of 60 points is huge! However, since School B has “increased” its score from the prior year rather than Maintained or Declined (Remember: 3 to 15 points positive change in ELA is considered as “Increased”), it receives a Yellow color.

As can be seen in the example above, it would not be an accurate comparison if we only compared the colors, such as “Yellow is better than Orange,” and did not compare the actual Status levels. While change from prior year is important and recognized by the Dashboard in determining the color, **Status** is the actual student performance and should not be lost sight of amid the colors. In this example, students of School A, on the average, are actually much closer to standard than the students of School B even though School A received a lower performance level (color) than School B.

Example 2:

In the following REAL example from the 2019 Fall Dashboard, MSA-1 has an Orange color and MSA-2 has a Yellow color on the Math indicator even though MSA-1’s students performed 17.7 points closer to standard compared with MSA-2’s students. (-43.1 minus $-60.8 = 17.7$ points)

All Students				
	Student Performance	Number of Students	Status	Change
MSA-1	Orange 43.1 points below standard	359	Low	Maintained +0.1 points
MSA-2	Yellow 60.8 points below standard	287	Low	Increased +5.6 points

How Did MPS Perform on the Fall 2019 CA School Dashboard? (All Students)

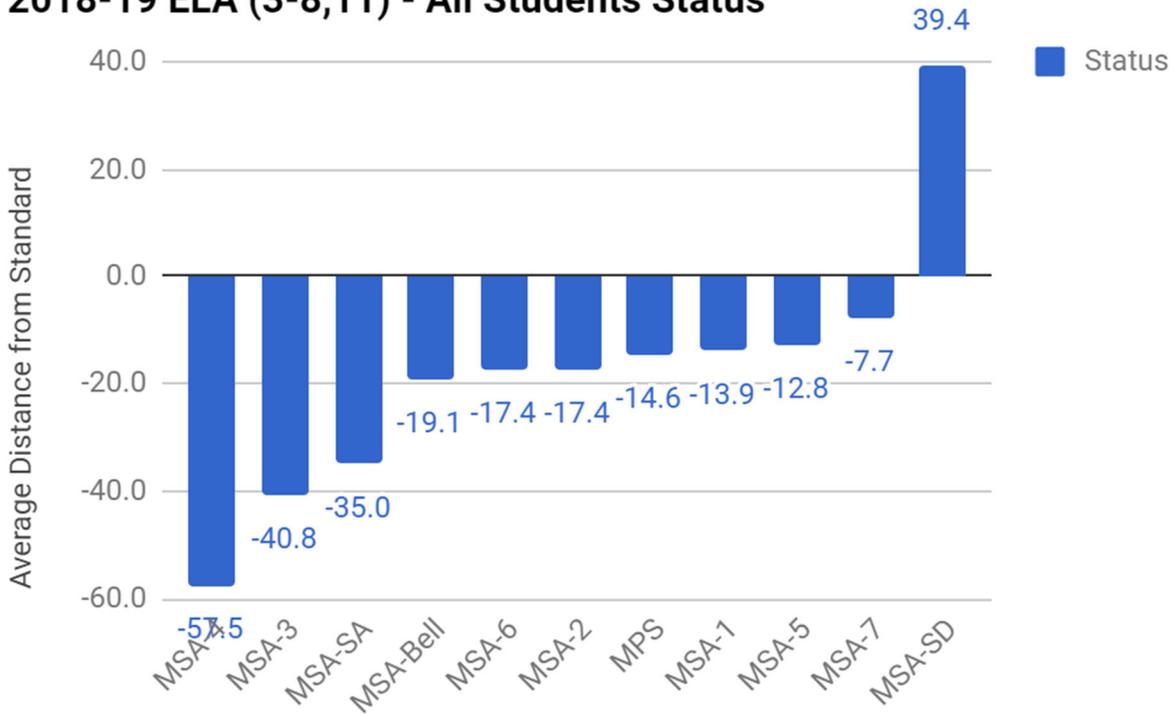
English Language Arts (3-8, 11):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Orange	359	Low 13.9 points below standard	Declined -4.9 points
MSA-2	Yellow	287	Low 17.4 points below standard	Increased Significantly +20.0 points
MSA-3	Orange	322	Low 40.8 points below standard	Declined Significantly -21.4 points
MSA-4	Orange	57	Low 57.5 points below standard	Declined Significantly -27.2 points
MSA-5	-	174	Low 12.8 points below standard	-
MSA-6	Orange	151	Low 17.4 points below standard	Declined -14.0 points
MSA-7	Orange	109	Low 7.7 points below standard	Maintained +1.1 points
MSA-Bell	Yellow	454	Low 19.1 points below standard	Increased +13.4 points
MSA-SD	Blue	375	High 39.4 points above standard	Increased Significantly +17.0 points
MSA-SA	Orange	360	Low 35.0 points below standard	Declined -11.0 points
MPS	Orange	2,648	Low 14.6 points below standard	Maintained +1.9 points
MPS-LA	Orange	1,913	Low 21.3 points below standard	Maintained +0.9 points
LAUSD	Yellow	223,502	Low 24.1 points below standard	Increased +5.1 points
SDUSD	Green	48,480	High 12.1 points above standard	Maintained +2.3 points
SAUSD	Yellow	24,314	Low 45.7 points below standard	Increased +4.1 points
STATE	Green	3,189,965	Medium 3.0 points below standard	Increased +3.1 points

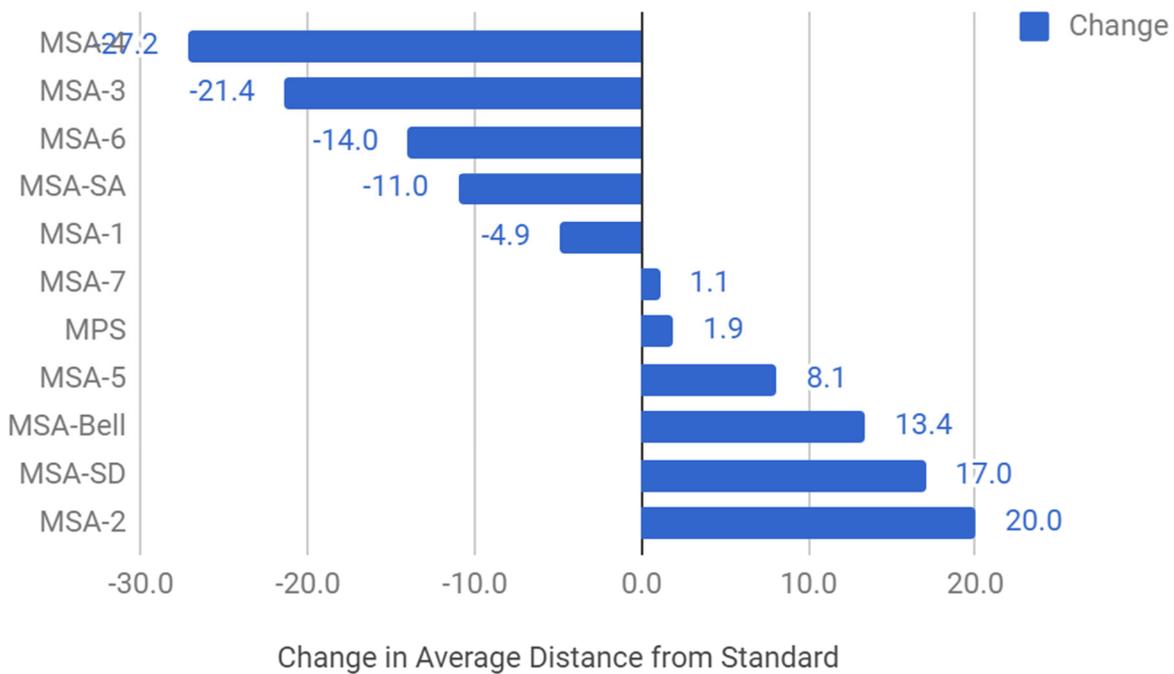
		English Language Arts/Literacy (3-8,11) - All Students Report				
		Change in Average Distance from Standard				
		Declined Significantly by more than 15 points	Declined by 3 to 15 points	Maintained Declined by less than 3 points or increased by less than 3 points	Increased by 3 to less than 15 points	Increased Significantly by 15 points or more
Average Distance from Standard (Status)	Very High 45 points higher					
	High 10 to 44.9 points					SD
	Medium -5 points to +9.9 points					
	Low -5.1 to -70 points	3, 4	1, 6, SA	7	Bell, 5*	2
	Very Low -70.1 points or lower					

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
-	1, 3, 4, 6, 7, SA	2, Bell, 5*	-	SD

2018-19 ELA (3-8,11) - All Students Status



2018-19 ELA (3-8,11) - All Students Change



English Language Arts (3-8, 11) Highlights:

- One school has a Blue color (MSA-SD); two have Yellow (MSA-2, Bell); six have Orange.
- MSA-5 would normally receive a Yellow color. They did not receive any color due to CDS code change.
- Nine schools have Low status; MSA-SD has a High status.
- Five schools showed positive change; five showed negative.
- If MPS were considered as one LEA, it would have received an Orange performance color (Low status with 14.6 points below standard, Maintained by +1.9 points. A 3-point increase would have put MPS in Yellow.)
- Compared with their local districts, eight of ten schools (except for MSA-3 and 4) have a better DFS.
- Compared with the state average, only MSA-SD has a better DFS (39.4 points above standard vs. 3 points below standard.)

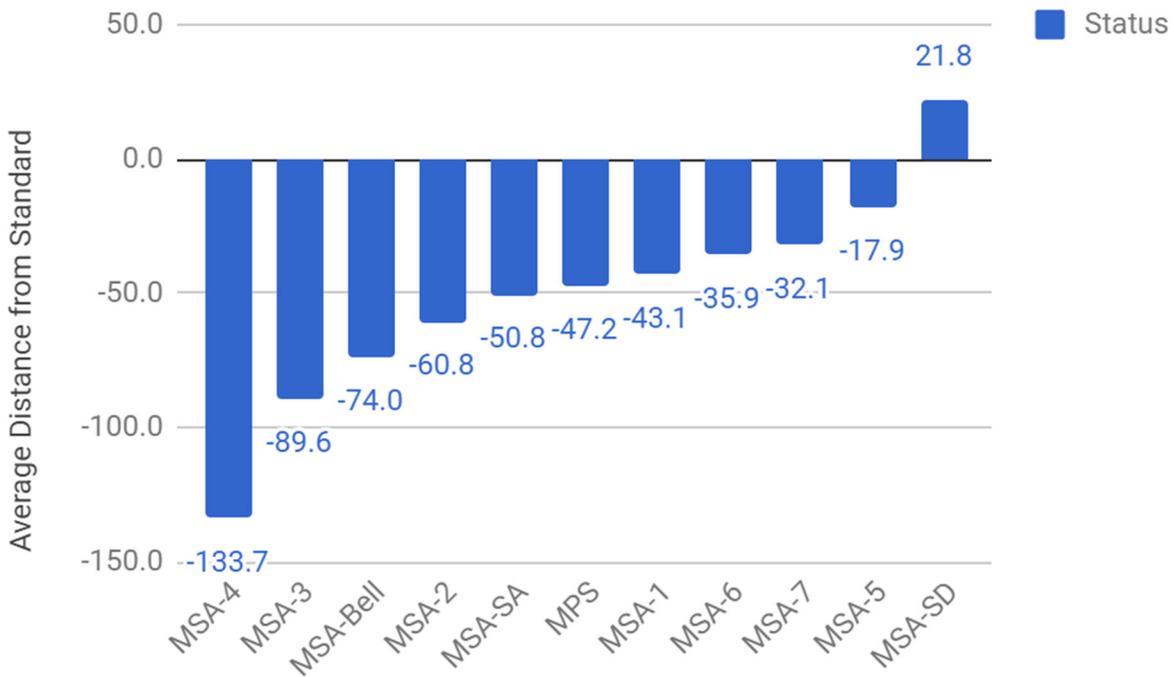
Mathematics (3-8, 11):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Orange	359	Low 43.1 points below standard	Maintained +0.1 points
MSA-2	Yellow	287	Low 60.8 points below standard	Increased +5.6 points
MSA-3	Orange	322	Low 89.6 points below standard	Declined -13.8 points
MSA-4	Red	57	Very Low 133.7 points below standard	Declined Significantly -21.1 points
MSA-5	-	174	Medium 17.9 points below standard	-
MSA-6	Orange	151	Low 35.9 points below standard	Maintained +2.5 points
MSA-7	Yellow	110	Low 32.1 points below standard	Increased +3.0 points
MSA-Bell	Yellow	453	Low 74.0 points below standard	Increased +7.0 points
MSA-SD	Green	375	High 21.8 points above standard	Increased +13.2 points
MSA-SA	Yellow	360	Low 50.8 points below standard	Increased +8.6 points
MPS	Yellow	2,648	Low 47.2 points below standard	Increased +5.4 points
MPS-LA	Orange	1,913	Low 60.1 points below standard	Maintained +2.7 points
LAUSD	Yellow	223,082	Low 54.1 points below standard	Increased +5.2 points
SDUSD	Green	48,331	Medium 10.4 points below standard	Increased +3.8 points
SAUSD	Orange	24,264	Low 68.2 points below standard	Maintained +2.9 points
STATE	Orange	3,183,085	Low 33.5 points below standard	Maintained +2.9 points

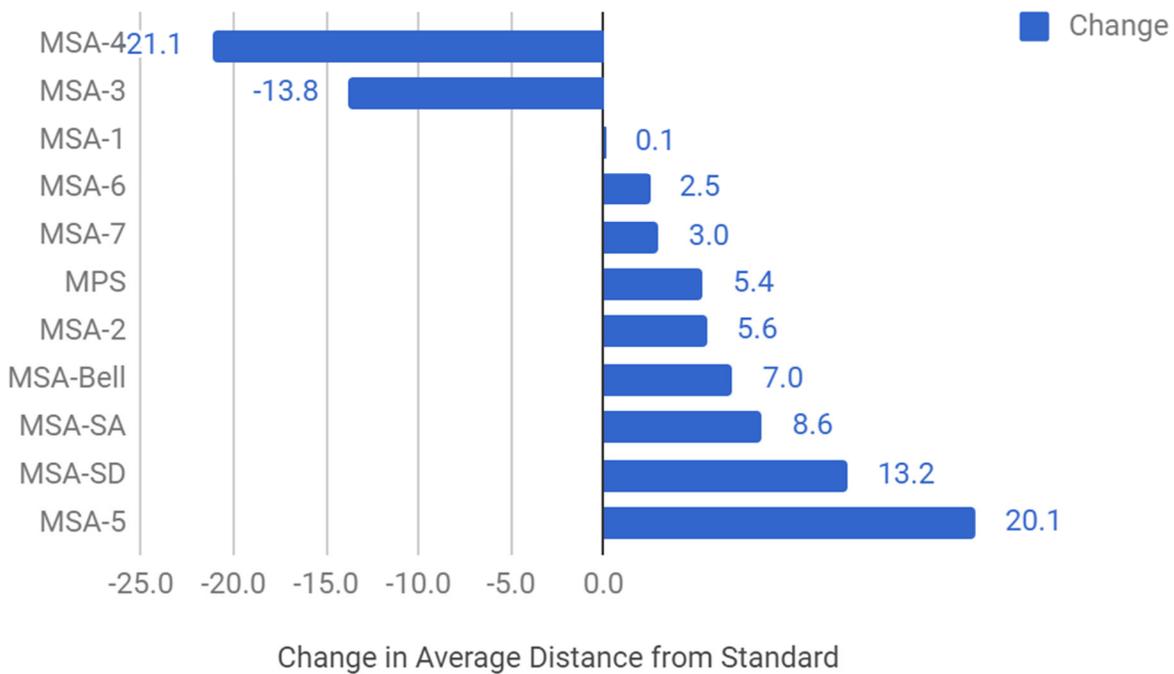
		Mathematics (3-8,11) - All Students Report				
		Change in Average Distance from Standard				
		Declined Significantly by more than 15 points	Declined by 3 to 15 points	Maintained Declined by less than 3 points or increased by less than 3 points	Increased by 3 to less than 15 points	Increased Significantly by 15 points or more
Average Distance from Standard (Status)	Very High 35 points or higher					
	High Zero to 34.9 points				SD	
	Medium -25 points to less than zero					5*
	Low -25.1 to -95 points		3	1, 6	2, 7, Bell, SA	
	Very Low -95.1 points or lower	4				

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
4	1, 3, 2006	2, 7, Bell, SA	SD, 5*	-

2018-19 Mathematics (3-8,11) - All Students Status



2018-19 Mathematics (3-8,11) - All Students Change



Mathematics (3-8, 11) Highlights:

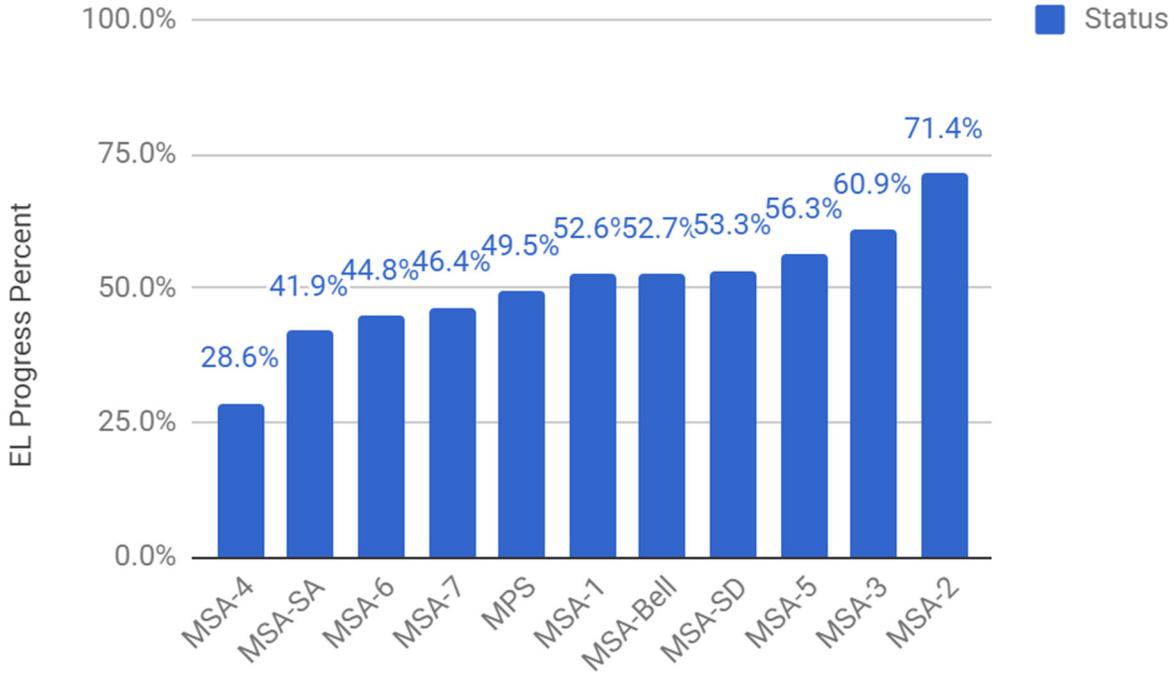
- One school has a Green color (MSA-SD); four have Yellow (MSA-2, Bell); three have Orange.
- MSA-5 would normally receive a Green color. They did not receive any color due to CDS code change.
- Seven schools have Low status; MSA-SD has a High status; MSA-5 has a Medium status; MSA-4 has a Very Low status.
- Eight schools showed positive change; two showed negative.
- If MPS were considered as one LEA, it would have received a Yellow performance color (Low status with 47.2 points below standard, Increased by +5.4 points.)
- Compared with their local districts, seven of ten schools (except for MSA-3 and 4) have a better DFS.
- Compared with the state average, three schools have a better DFS (MSA-5, 7, and SD; MSA-6 is close.)

English Learner Progress (1-12):

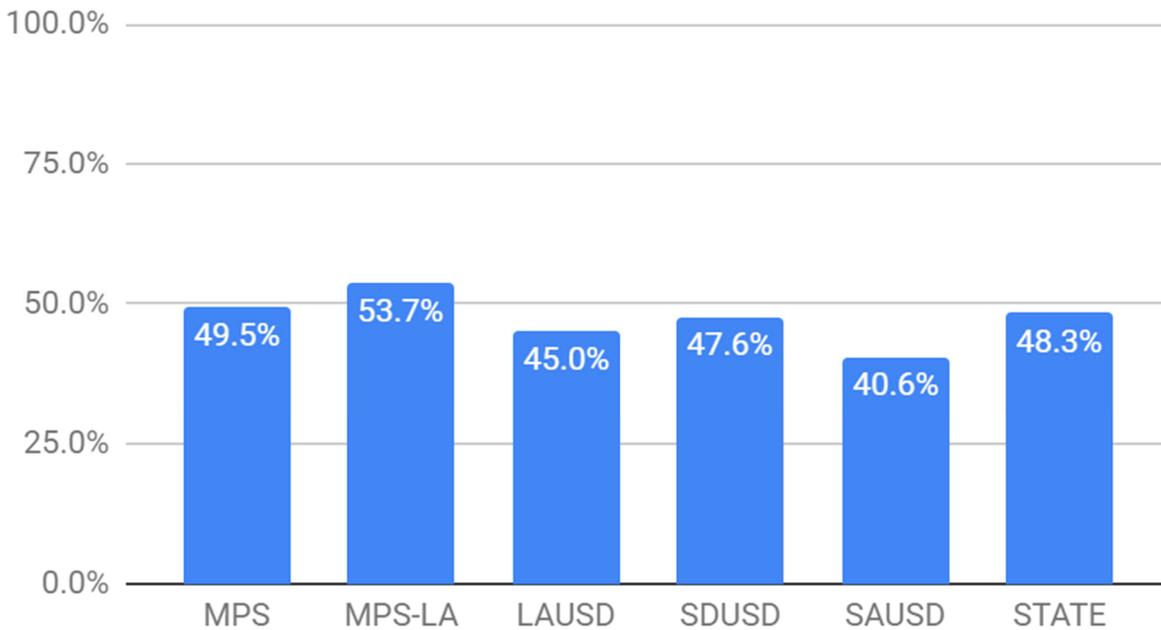
	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	-	95	Medium 52.6%	-
MSA-2	-	49	Very High 71.4%	-
MSA-3	-	23	Low 60.9%	-
MSA-4	-	14	Very Low 28.6%	-
MSA-5	-	48	High 56.3%	-
MSA-6	-	29	Low 44.8%	-
MSA-7	-	56	Medium 46.4%	-
MSA-Bell	-	55	Medium 52.7%	-
MSA-SD	-	15	Low 53.3%	-
MSA-SA	-	210	Low 41.9%	-
MPS	-	594	Medium 49.5%	-
MPS-LA	-	369	Medium 53.7%	-
LAUSD	-	68,139	Medium 45.0%	-
SDUSD	-	12,962	Medium 47.6%	-
SAUSD	-	12,772	Low 40.6%	-
STATE	-	844,257	Medium 48.3%	-

		English Learner Progress (1-12) Status and Change Report				
		English Learner Progress Change				
		Declined Significantly by greater than 10.0%	Declined by 1.5% to 10.0%	Maintained Declined or increased by less than 1.5%	Increased by 1.5% to less than 10.0%	Increased Significantly by 10.0% or greater
English Learner Progress Status	Very High 65% or greater	Yellow	Green	Blue	Blue	Blue
	High 55% to less than 65%	Orange	Yellow	Green	Green	Blue
	Medium 45% to less than 55%	Orange	Orange	Yellow	Green	Green
	Low 35% to less than 45%	Red	Orange	Orange	Yellow	Yellow
	Very Low Less than 35%	Red	Red	Red	Orange	Yellow

2018-19 English Learner Progress (1-12) - Status



2018-19 English Learner Progress (1-12) Status



English Learner Progress (1-12) Highlights:

- Schools have been only assigned a Status level in 2018-19. They will receive a performance color next year.
- One school has a Very High status (MSA-2); one school has High (MSA-5); three have Medium (MSA-1, 7, Bell); four have low; one has Very Low (MSA-4).
- Three schools (MSA-3, 4, and SD) did not meet the required 95% ELPAC test participation rate and were automatically assigned a Low performance level, except for MSA-4, which already had a Very Low level.
- If MPS were considered as one LEA, it would have received a Medium performance level (49.5%).
- Compared with their local districts, eight of ten schools (except for MSA-4 and 6) have a higher percentage of English Learner Progress.
- Compared with the state average of 48.3%, six schools have a higher percentage of English Learner Progress.

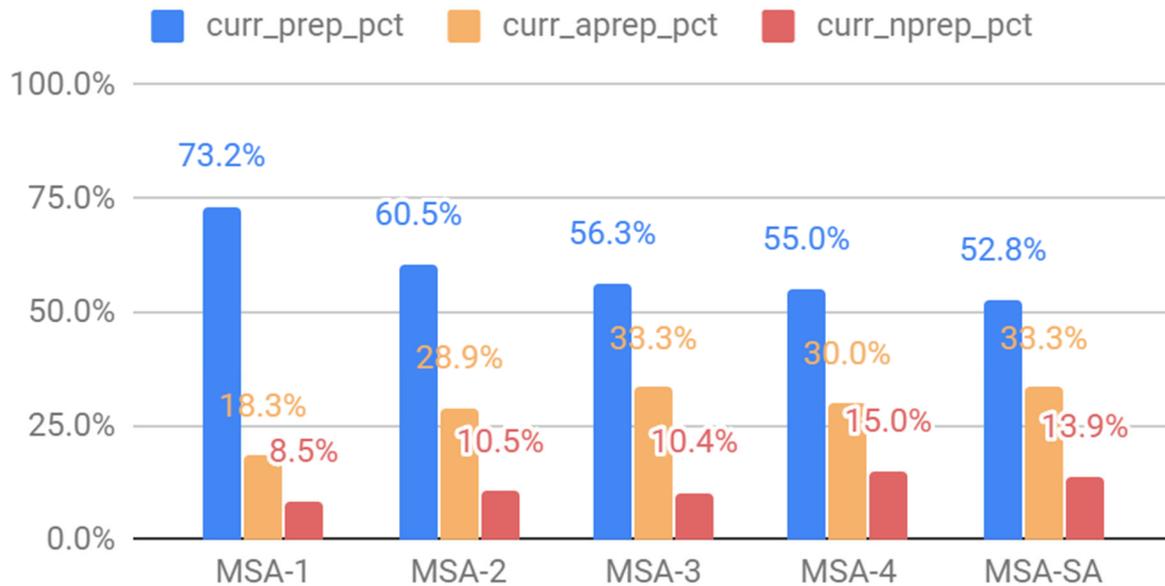
College/Career Indicator (9-12):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Blue	71	Very High 73.2%	Increased +12.6%
MSA-2	Green	38	High 60.5%	Increased +2.6%
MSA-3	Green	48	High 56.3%	Increased +8.5%
MSA-4	-	40	High 55.0%	Maintained +1.2%
MSA-SA	-	36	Medium 52.8%	Declined -8.8%
MPS	Green	233	High 61.4%	Increased +5.3%
MPS-LA	Green	197	High 62.9%	Increased +7.3%
LAUSD	Yellow	31,388	Medium 37.7%	Maintained -0.7%
SDUSD	Green	6,976	High 60.0%	Maintained +0.3%
SAUSD	Green	3,636	Medium 41.8%	Increased +3.5%
STATE	Yellow	504,344	Medium 44.0%	Maintained +1.7%

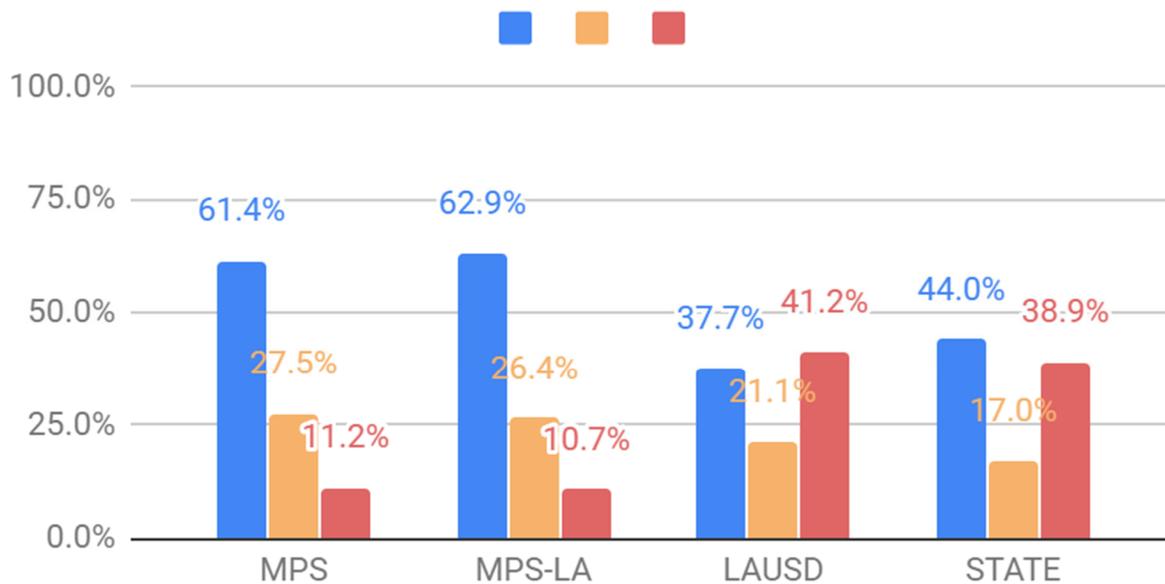
		College/Career Indicator (9-12) - All Students Report				
		College/Career Change				
		Declined Significantly by 9.1% or more	Declined by 2.0% to 9.0%	Maintained Declined or increased by 1.9% or less	Increased by 2.0% to 8.9%	Increased Significantly by 9.0% or more
College/Career Status	Very High 70.0% or greater	Yellow	Green	Blue	1	Blue
	High 55.0% to 69.9%	Orange	Yellow	Green	2, 3	Blue
	Medium 35.0% to 54.9%	Orange	Orange	Yellow	Green	Green
	Low 10.0% to 34.9%	Red	Orange	Orange	Yellow	Yellow
	Very Low Less than 10.0%	Red	Red	Red	Orange	Yellow

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
-			2, 3	1

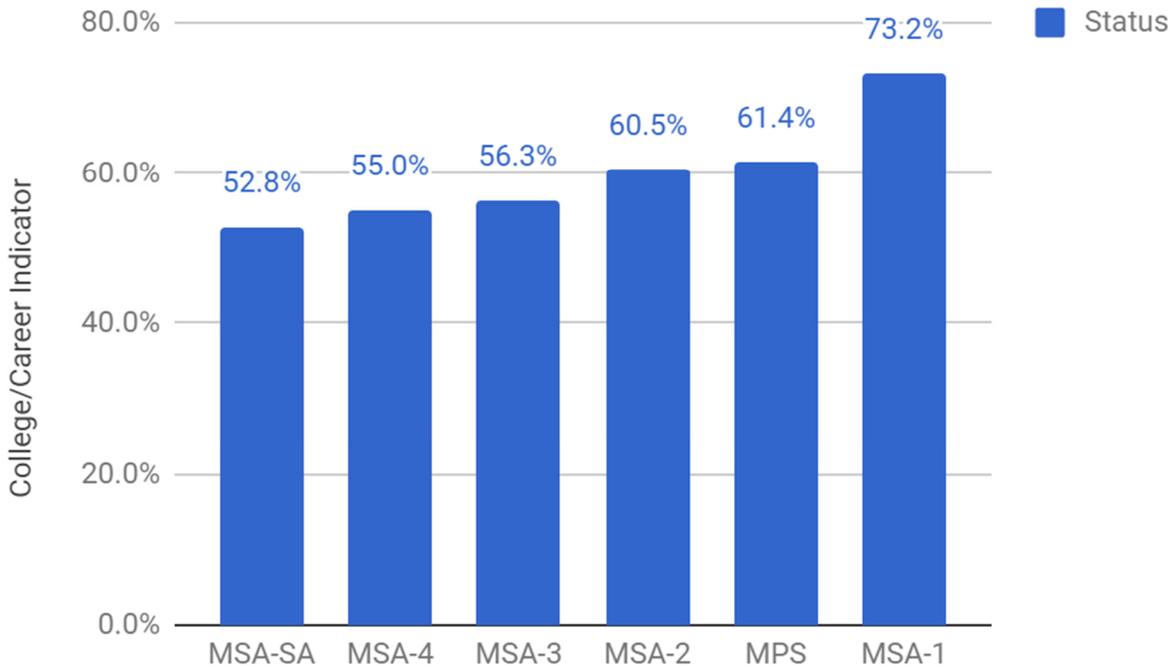
2018-19 College/Career Indicator (9-12) - % Prepared, % Approaching Prepared, % Not Prepared



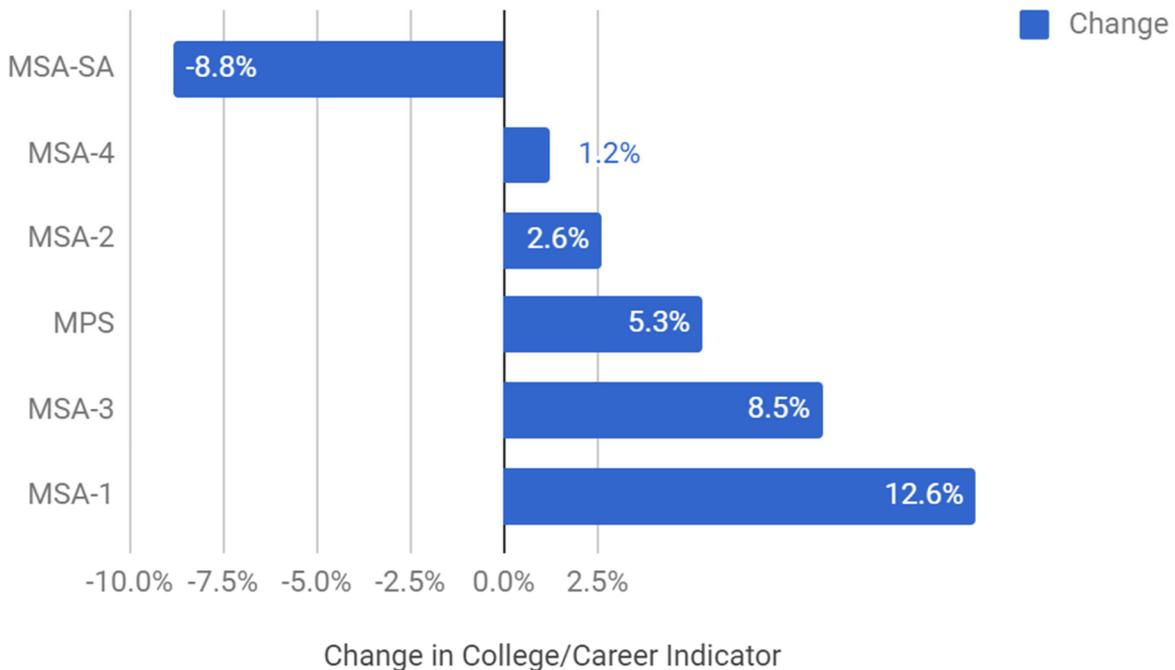
2018-19 College/Career Indicator (9-12) - % Prepared, % Approaching Prepared, % Not Prepared



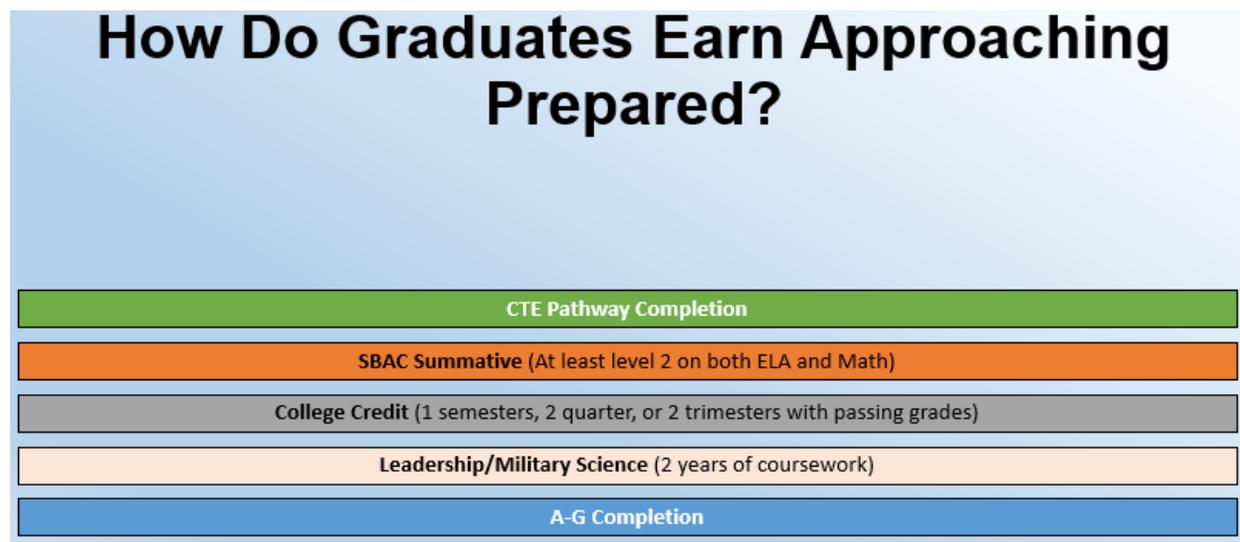
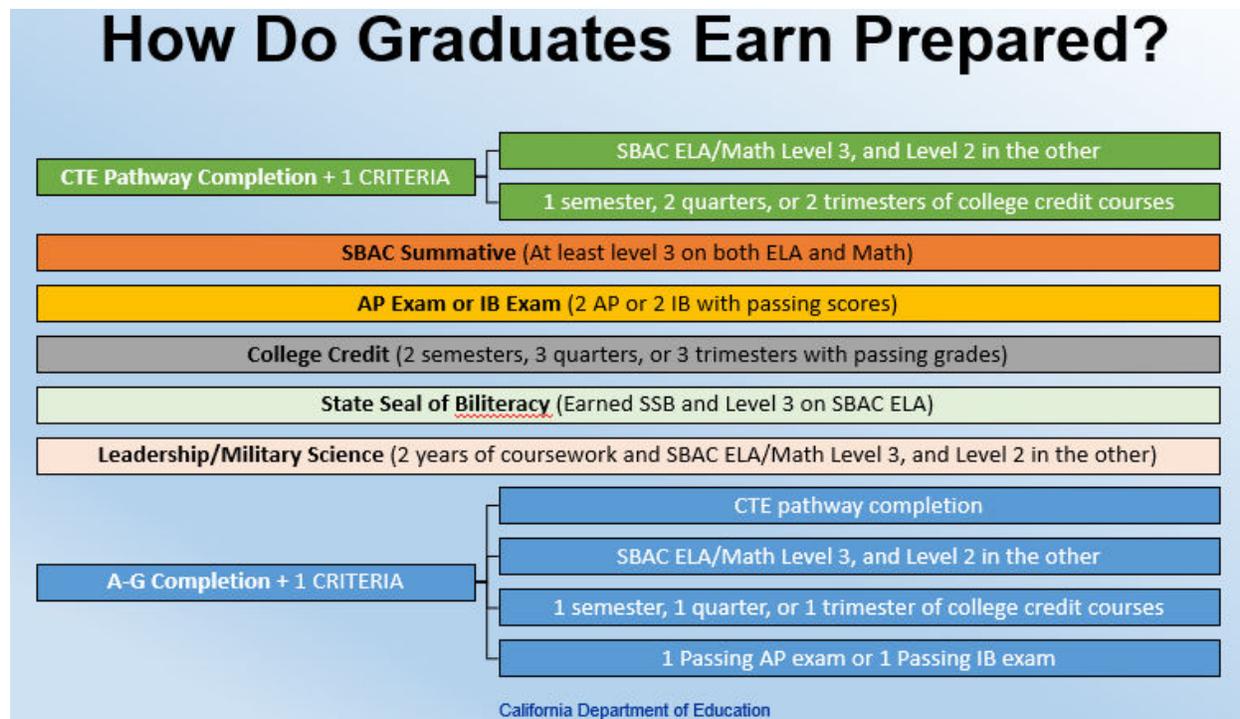
2018-19 College/Career Indicator (9-12) - All Students Status



2018-19 College/Career Indicator (9-12) - All Students Change



Please note that there are different ways a student can be designated as “Prepared” for College/Career. The following are the eligibility options for a student to be considered College/Career “Prepared” or “Approaching Prepared” on the CCI.



The following tables show how MPS graduates earned "Prepared" on the CCI. **143 of 233** MPS graduates earned "Prepared" by meeting the criteria:

- 52 of 233 graduates scored Level 3 "Standard Met" or higher on both the English language arts/literacy and mathematics Smarter Balanced Summative Assessments.
- 27 of 233 graduates scored 3 or higher on at least two Advanced Placement exams.
- 141 of 233 graduates completed a-g course requirements with a grade of C minus or better plus an additional criteria.
- 50 of 233 graduates earned the State Seal of Biliteracy and scored Level 3 "Standard Met" or higher on the English language arts/literacy Smarter Balanced Summative Assessment.

College/Career Indicator (9-12) Status and Change Report							
currdenom	curr_prep	curr_prep_p ct	curr_aprep	curr_aprep_p ct	curr_nprep	curr_nprep_p ct	
Number of students in the current year CCI denominator. This number may include 1) Students from the Class of 2019 2) Students from the Class of 2018 who graduated in 2019 and earned Prepared	Number and Percent of students in the current year CCI who earned Prepared on the CCI		Number and Percent of students in the current year CCI who earned Approaching Prepared on the CCI		Number and Percent of students in the current year CCI who earned Not Prepared on the CCI		
MSA-1	71	52	73.2%	13	18.3%	6	8.5%
MSA-2	38	23	60.5%	11	28.9%	4	10.5%
MSA-3	48	27	56.3%	16	33.3%	5	10.4%
MSA-4	40	22	55.0%	12	30.0%	6	15.0%
MSA-SA	36	19	52.8%	12	33.3%	5	13.9%
MPS	233	143	61.4%	64	27.5%	26	11.2%
MPS-LA	197	124	62.9%	52	26.4%	21	10.7%
LAUSD	31,388	11,818	37.7%	6,634	21.1%	12,936	41.2%
STATE	504,344	221,984	44.0%	85,978	17.0%	196,382	38.9%
SAUSD	3,636	1,521	41.8%	639	17.6%	1,476	40.6%

The above were numbers of graduates who met Prepared criteria on the CCI through different options. The following are more details on MPS' cohort graduation rate:

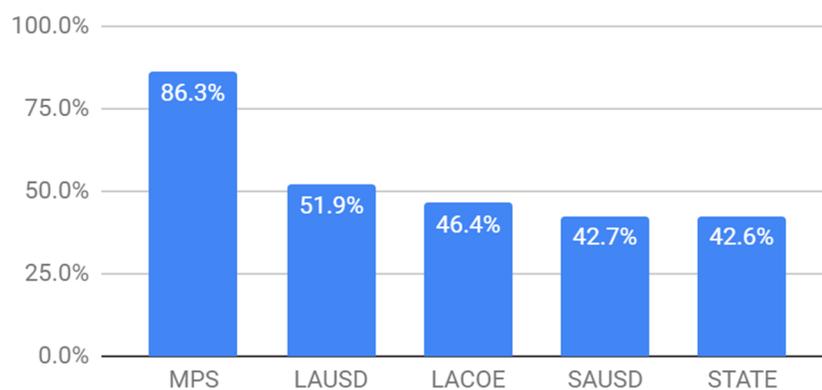
- MPS has a four-year adjusted cohort graduation rate of 96.1% (224 of 233).
- Percent of cohort meeting UC/CSU requirements: 86.3% (201 of 233).
- Percent of cohort earning a Seal of Biliteracy: 21.5% (50 of 233).
- Percent of cohort earning a Golden State Seal Merit Diploma: 31.3% (73 of 233).

Cohort Graduation Rate



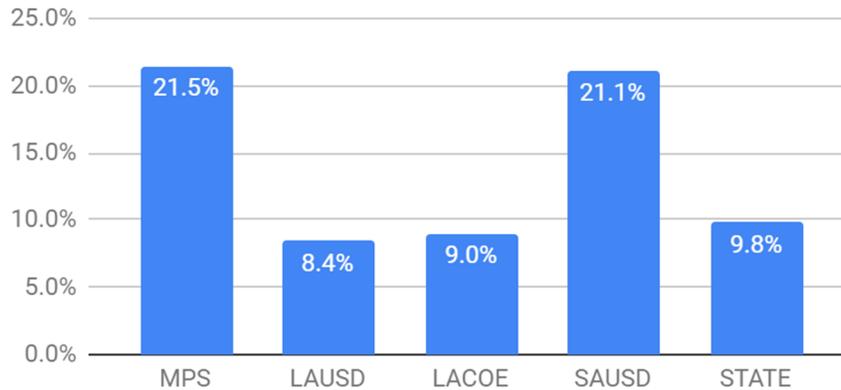
2018-19 FOUR-YEAR ADJUSTED COHORT GRADUATION RATE

% of Graduates Meeting UC/CSU Requirements



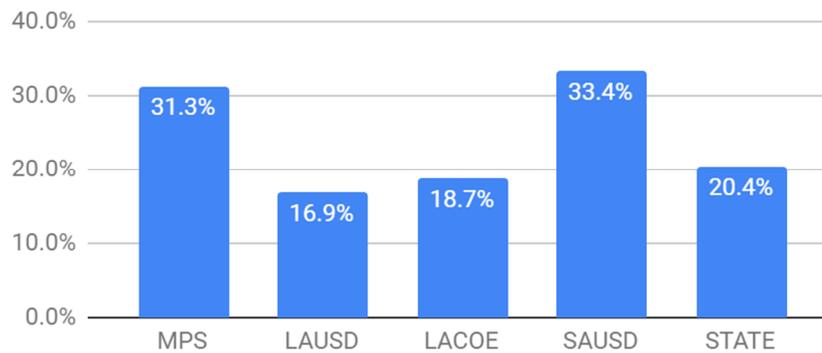
2018-19 FOUR-YEAR ADJUSTED COHORT GRADUATION DATA

% of Graduates Earning a Seal of Biliteracy



2018-19 FOUR-YEAR ADJUSTED COHORT GRADUATION DATA

% of Graduates Earning a Golden State Seal Merit Diploma



2018-19 FOUR-YEAR ADJUSTED COHORT GRADUATION DATA

College/Career Indicator (9-12) Highlights:

- One school has a Blue color (MSA-1); two have Green (MSA-2 and 3).
- MSA-4 and SA do not have colors since they did not have 30 or more graduates in the prior year (2017-18). If they were assigned colors, MSA-4 would have received Green and MSA-SA Orange.
- One school has a Very High Status (MSA-1); three have High (MSA-2, 3, 4); one has Medium (MSA-SA).
- Three schools showed positive change; MSA-SA declined.
- If MPS were considered as one LEA, it would have received a Green performance color (High 61.4%, Increased by +5.3%)
- Compared with their local districts and the state average, all five schools have a higher percentage of graduates earning “Prepared” on the College/Career Indicator (CCI).

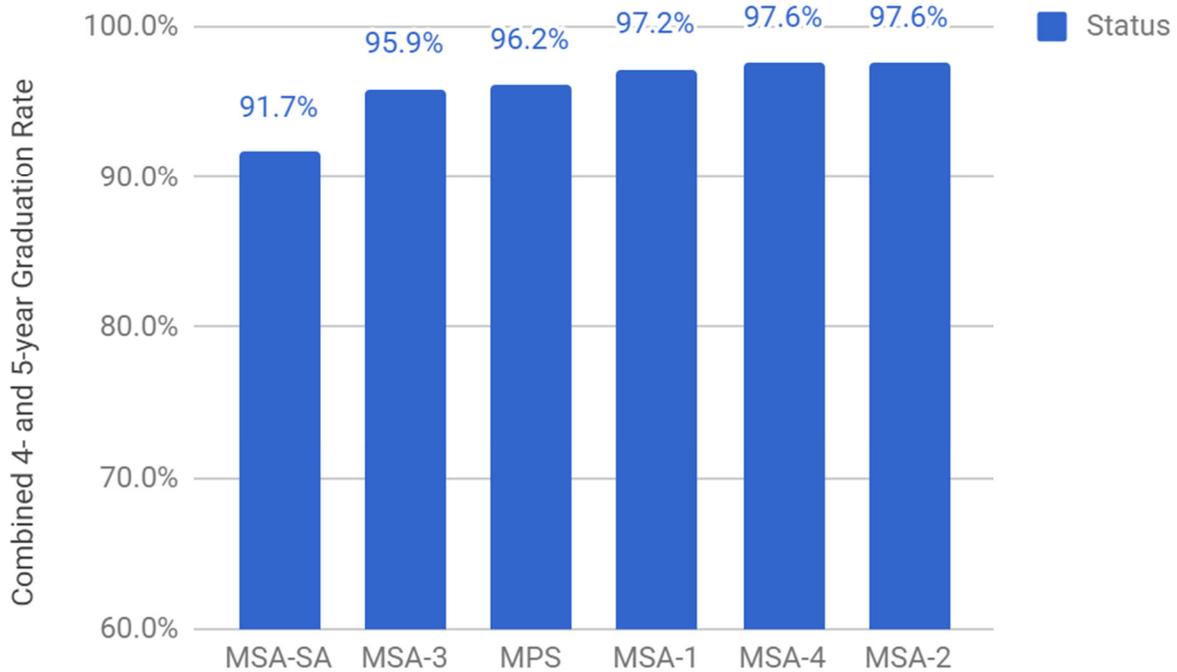
Graduation Rate (9-12):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Blue	71	Very High 97.2%	Declined -2.8%
MSA-2	Blue	42	Very High 97.6%	Increased +7.9%
MSA-3	Blue	49	Very High 95.9%	Maintained +0.5%
MSA-4	-	41	Very High 97.6%	Increased +1.4%
MSA-SA	-	36	High 91.7%	Declined -1.2%
MPS	Blue	239	Very High 96.2%	Maintained +0.6%
MPS-LA	Blue	203	Very High 97.0%	Increased +1.1%
LAUSD	Orange	31,647	Medium 81.2%	Declined -1.7%
SDUSD	Yellow	7,007	Medium 89.2%	Maintained -0.3%
SAUSD	Yellow	3,671	Medium 87.8%	Maintained -0.6%
STATE	Green	509,504	Medium 85.7%	Increased +2.0%

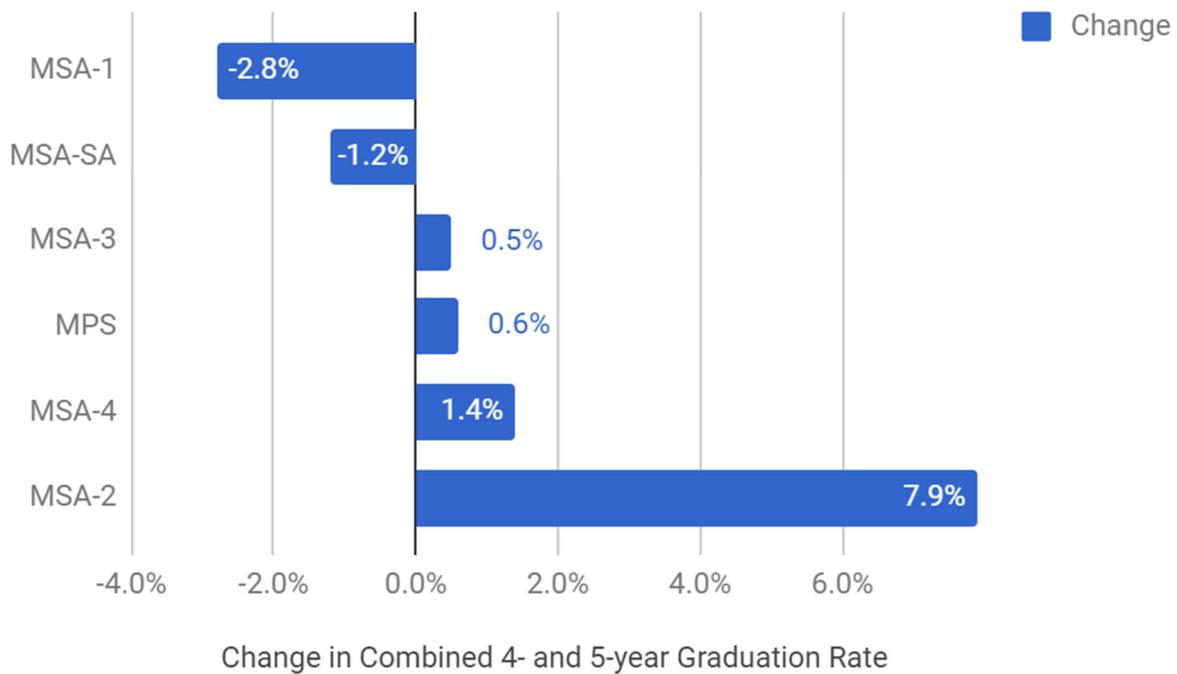
		Graduation Rate (9-12) - All Students Report				
		Graduation Change				
		Declined Significantly by greater than 5.0%	Declined by 1.0% to 5.0%	Maintained Declined or increased by less than 1.0%	Increased by 1.0% to less than 5.0%	Increased Significantly by 5.0% or greater
Graduation Status	Very High 95.0% or greater		1	3	2	
	High 90.5% to less than 95.0%					
	Medium 80.0% to less than 90.5%					
	Low 68.0% to less than 80.0%					
	Very Low Less than 68.0%					

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
-	-	-	-	1, 2, 3

2018-19 Graduation Rate (9-12) - All Students Status



2018-19 Graduation Rate (9-12) - All Students Change



Graduation Rate (9-12) Highlights:

- All three schools have a Blue color (MSA-1, 2, and 3).
- MSA-4 and SA do not have colors since they did not have 30 or more graduates in the prior year (2017-18). If they were assigned colors, MSA-4 would have received Blue and MSA-SA Yellow.
- Fours schools have a Very High Status; one has High (MSA-SA).
- Three schools showed positive change (MSA-2, 4); two declined (MSA-1, SA).
- If MPS were considered as one LEA, it would have received a Blue performance color (Very High 96.2%, Maintained by +0.6%)
- Compared with their local districts and the state average, all five schools have a higher graduation rate.

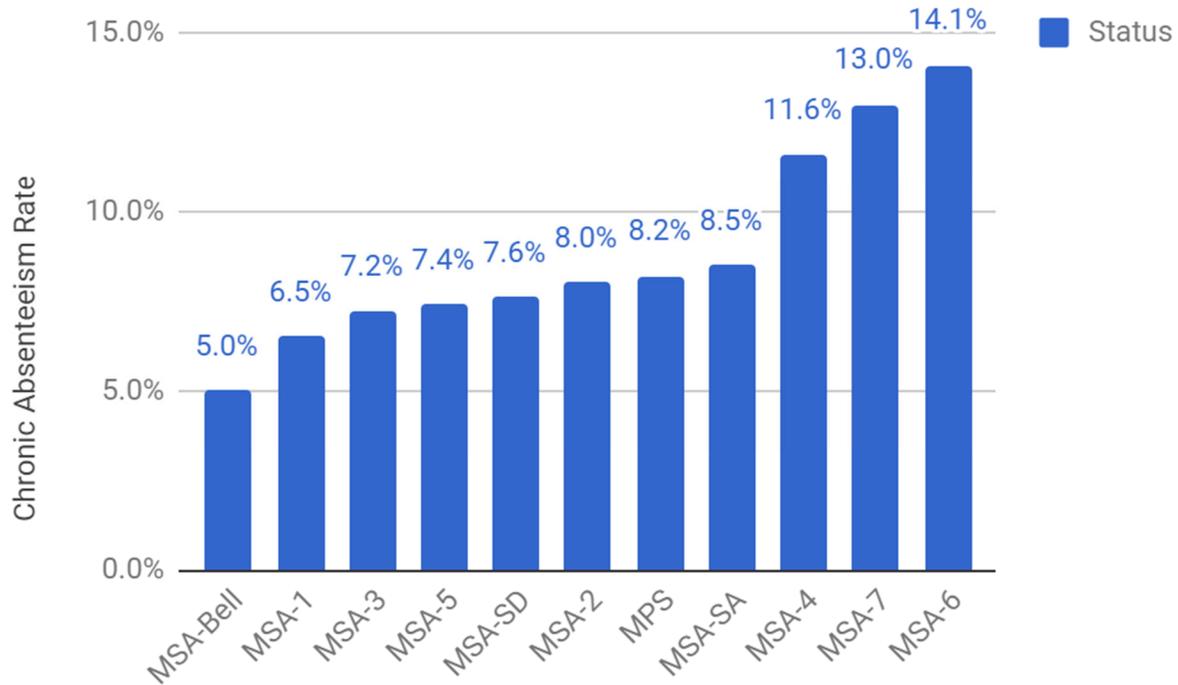
Chronic Absenteeism Rate (K-8):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Orange	310	Medium 6.5%	Increased Significantly +3.7%
MSA-2	Green	263	Medium 8.0%	Declined -0.6%
MSA-3	Orange	291	Medium 7.2%	Increased +1.0%
MSA-4	Yellow	43	High 11.6%	Declined -1.3%
MSA-5	-	175	Medium 7.4%	-
MSA-6	Red	163	High 14.1%	Increased Significantly +12.9%
MSA-7	Orange	292	High 13.0%	Maintained -0.3%
MSA-Bell	Yellow	480	Low 5.0%	Increased +1.8%
MSA-SD	Green	422	Medium 7.6%	Declined -2.2%
MSA-SA	Orange	552	Medium 8.5%	Increased +1.2%
MPS	Orange	2,991	Medium 8.2%	Increased +0.8%
MPS-LA	Orange	2,017	Medium 8.2%	Increased +1.3%
LAUSD	Red	337,845	High 18.2%	Increased Significantly +8.0%
SDUSD	Orange	76,114	High 12.4%	Increased +0.7%
SAUSD	Orange	32,892	Medium 5.4%	Increased +1.1%
STATE	Orange	4,279,575	High 10.1%	Increased +1.1%

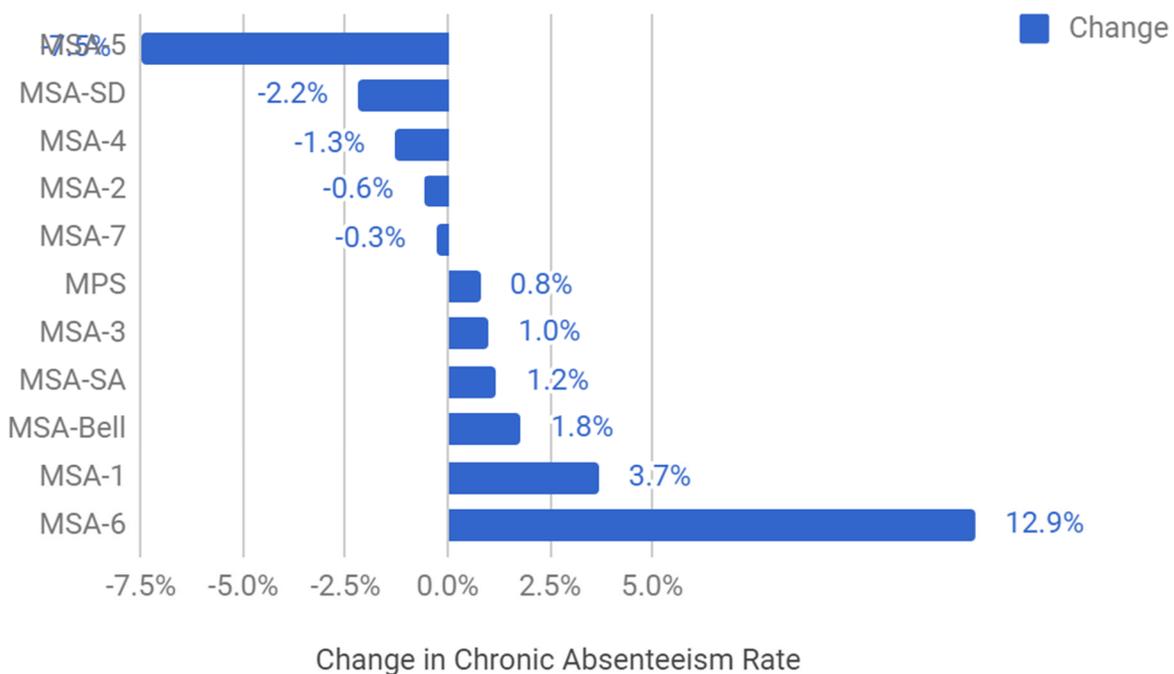
		Chronic Absenteeism Rate (K-8) - All Students Report				
		Chronic Absenteeism Rate Change				
		Increased Significantly by 3.0% or more	Increased by 0.5% to less than 3%	Maintained Declined or increased by less than 0.5%	Declined by 0.5% to less than 3.0%	Declined Significantly by 3.0% or more
Chronic Absenteeism Rate Status	Very Low 2.5% or less					
	Low More than 2.5% to 5.0%		Bell			
	Medium More than 5.0% to 10.0%	1	3, SA		2, SD	5*
	High More than 10.0% to 20.0%	6		7	4	
	Very High More than 20%					

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
6	1, 3, 7, SA	4, Bell	2, SD, 5*	-

2018-19 Chronic Absenteeism Rate (K-8) - All Students Status



2018-19 Chronic Absenteeism Rate (K-8) - All Students Change



Chronic Absenteeism Rate (K-8) Highlights:

- Two schools have a Green color (MSA-2, SD); two have Yellow (MSA-4, Bell); four have Orange (MSA-1, 3, 7, SA) and one has Red (MSA-6).
- MSA-5 would normally receive a Green color. They did not receive any color due to CDS code change.
- Three schools have high levels of chronic absenteeism (MSA-4, 6, and 7); one school has low level of chronic absenteeism (5.0%)
- Five schools increased and five declined their chronic absenteeism rates.
- If MPS were considered as one LEA, it would have received an Orange performance color (Medium 8.2%, Increased by +0.8%)
- Compared with their local districts, nine of ten schools have a better (lower) chronic absenteeism rate.
- Compared with the state average (10.1%), seven of ten schools have a better (lower) chronic absenteeism rate.

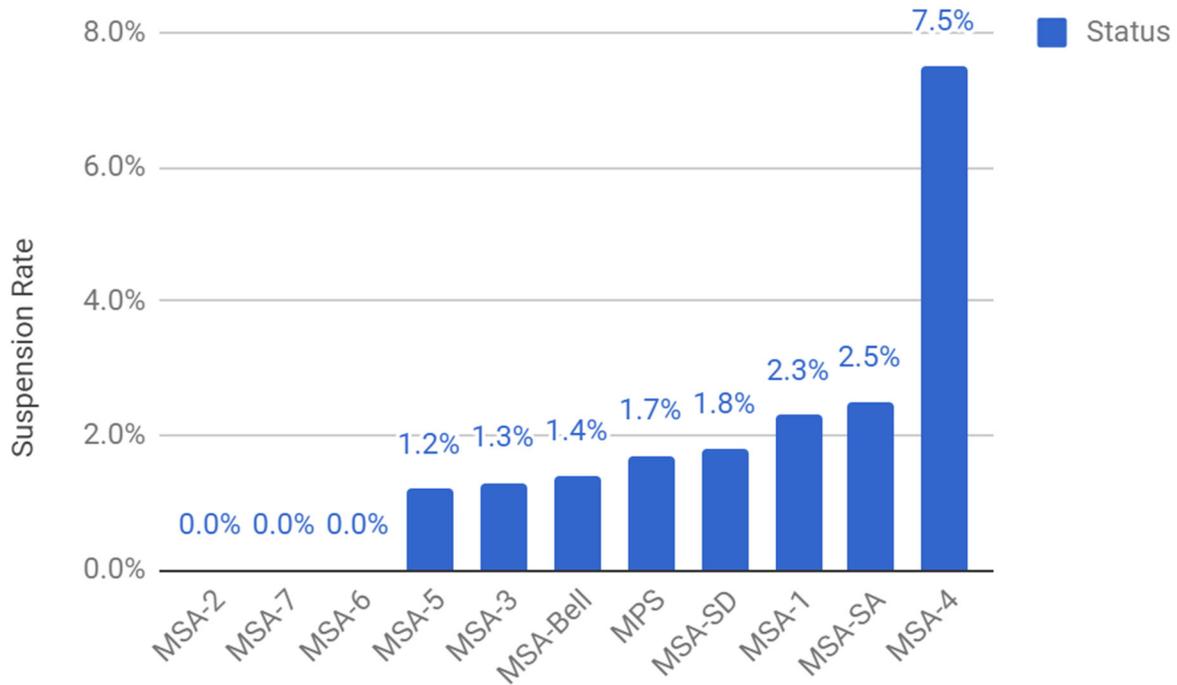
Suspension Rate (K-12):

	All Students			
	Student Performance	Number of Students	Status	Change
MSA-1	Orange	620	Low 2.3%	Increased Significantly +2.3%
MSA-2	Blue	448	Very Low 0%	Declined -0.4%
MSA-3	Blue	526	Low 1.3%	Declined Significantly -2.9%
MSA-4	Red	187	High 7.5%	Increased Significantly +7.5%
MSA-5	-	259	Low 1.2%	-
MSA-6	Blue	163	Very Low 0%	Declined -0.6%
MSA-7	Blue	296	Very Low 0%	Maintained 0%
MSA-Bell	Yellow	490	Low 1.4%	Increased +1.4%
MSA-SD	Green	437	Low 1.8%	Declined -0.7%
MSA-SA	Yellow	714	Low 2.5%	Increased +0.4%
MPS	Yellow	4,140	Low 1.7%	Increased +0.4%
MPS-LA	Yellow	2,989	Low 1.5%	Increased +0.6%
LAUSD	Blue	475,140	Very Low 0.4%	Maintained -0.1%
SDUSD	Yellow	109,528	Medium 3.8%	Maintained +0.1%
SAUSD	Yellow	48,280	Medium 3.2%	Maintained -0.1%
STATE	Yellow	6,362,507	Medium 3.4%	Maintained -0.1%

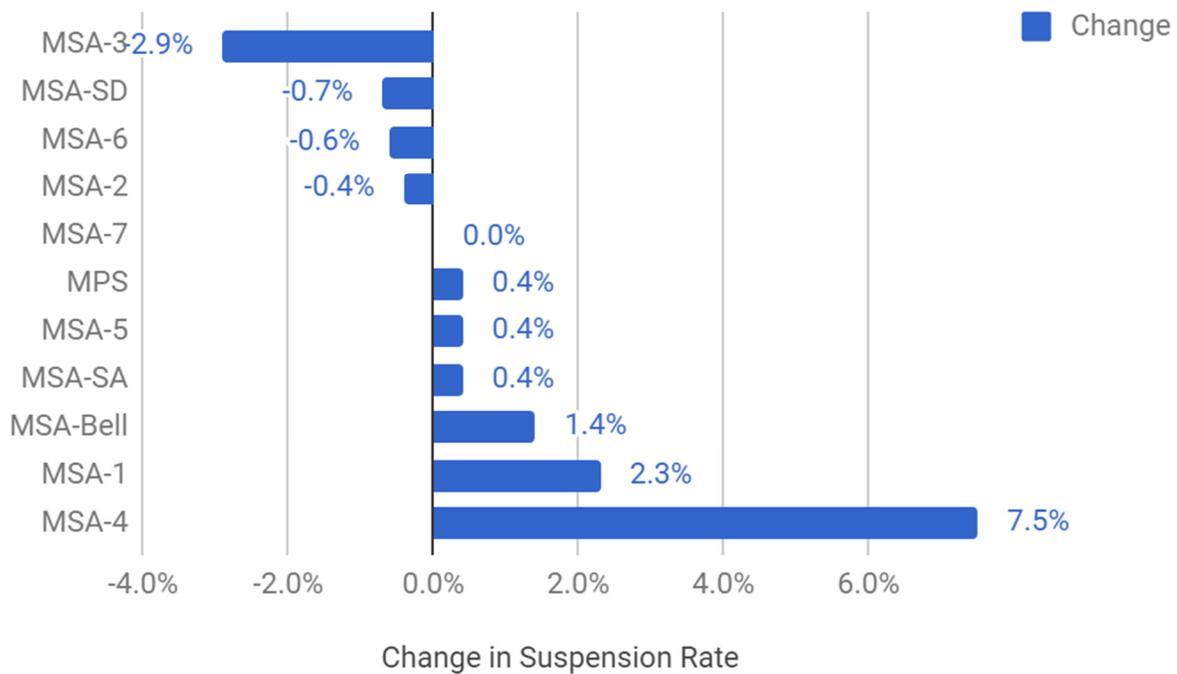
		Suspension Rate (K-12) - All Students Report				
		Suspension Change (Unified School District and K-12 Schools*)				
		Increased Significantly by greater than 2.0%	Increased by 0.3% to 2.0%	Maintained Declined or increased by less than 0.3%	Declined by 0.3% to less than 2.0%	Declined Significantly by 2.0% or greater
Suspension Status (USD and K-12 Schools**)	Very Low 1.0% or less			7	2, 6	
	Low Greater than 1.0% to 2.5%	1	Bell, SA, 5*		SD	3
	Medium Greater than 2.5% to 4.5%					
	High Greater than 4.5% to 8.0%	4				
	Very High Greater than 8.0%					
		* There are separate 5x5 tables for Elementary, High, and Unified School Districts				

Schools in Each Performance Level				
Red	Orange	Yellow	Green	Blue
4	1	Bell, SA, 5*	SD	2, 3, 6, 7

2018-19 Suspension Rate (K-12) - All Students Status



2018-19 Suspension Rate (K-12) - All Students Change



Suspension Rate (K-12) Highlights:

- Four schools have a Blue color (MSA-2, 3, 6, 7); one has Green (MSA-SD); two Yellow (MSA-Bell, SA); one Orange (MSA-1); and one Red (MSA-4).
- MSA-5 would normally receive a Yellow color. They did not receive any color due to CDS code change.
- One school has a high suspension rate (MSA-4); six school have low suspension rates; and three schools have very low (0%) suspension rates (MSA-2, 6, and 7).
- Five schools increased and four declined their suspension rates.
- If MPS were considered as one LEA, it would have received a Yellow performance color (Low 1.7%, Increased by +0.4%)
- Compared with their local districts, five of ten schools have a better (lower) suspension rate.
- Compared with the state average (3.4%), nine of ten schools have a better (lower) suspension rate.

How Did MPS Perform on the Fall 2019 CA School Dashboard? (Student Groups)

In order to close the achievement and opportunity gaps and to ensure equity among student groups we need to review how each student group performed on the Dashboard. The following tables and attached reports show student group performance on the state indicators.

As demonstrated below, collectively, MPS has **13** of 167 (7.8%) student groups in Red and **62** of 167 (37.1%) student groups in Orange across the board, adding up to about **45%** of MPS student groups in Red or Orange.

Table 2: MPS Student Group Performance (# of student groups by color per state indicator)

State Indicator	Red	Orange	Yellow	Green	Blue
English Language Arts (3-8, 11)	2	19	10	3	2
Mathematics (3-8, 11)	5	15	13	3	1
College/Career (9-12)	0	0	0	3	2
Graduation Rate (9-12)	0	0	0	5	5
Chronic Absenteeism Rate (K-8)	3	16	7	8	2
Suspension Rate (K-12)	3	12	5	3	20
Total:	13	62	35	25	32

Table 3: MPS student groups with a Red performance color on the Dashboard per state indicator

State Indicator	Student Group with Red Performance Color
English Language Arts (3-8, 11)	MSA-3: EL MSA-SA: SWD
Mathematics (3-8, 11)	MSA-3: EL, SWD, AA MSA-4: SED, HI
College/Career (9-12)	None
Graduation Rate (9-12)	None
Chronic Absenteeism Rate (K-8)	MSA-6: SWD MSA-7: SWD, HI
Suspension Rate (K-12)	MSA-4: SED, SWD, AA

EL: English Learner; SED: Socioeconomically Disadvantaged; SWD: Students with Disabilities; AA: African American; HI: Hispanic

The following tables show student group performance for each school per state indicator.

Fall 2019 - Equity Report																						
						State Priority 4: Student Achievement									State Priority 8: Outcomes in a Broad Course of Study							
						2018-19					English Language Arts (3-8, 11)			Mathematics (3-8, 11)			English Learner Progress (1-12)			College / Career Progress (9-12)		
						Enrollment	SED	EL	Foster Youth	Gr. Span	All Students Perf.	Total Stu Grps	Grps Red / Org	All Students Perf.	Total Stu Grps	Grps Red / Org	All Students Perf.	Total Stu Grps	Grps Red / Org	All Students Perf.	Total Stu Grps	Grps Red / Org
MSA-1	580	88.5%	16.8%	0.0%	6-12	Orange	4	3	Orange	4	3	Medium	1	N/A	Blue	2	0					
MSA-2	437	87.6%	11.9%	0.0%	6-12	Yellow	4	1	Yellow	4	3	Very High	1	N/A	Green	2	0					
MSA-3	510	72.2%	5.3%	0.0%	6-12	Orange	4	4	Orange	5	5	Low	0	N/A	Green	1	0					
MSA-4	176	75.6%	9.1%	0.0%	6-12	Orange	2	2	Red	2	2	Very Low	0	N/A	-	0	0					
MSA-5	248	88.7%	23.8%	0.0%	6-12	-	0	0	-	0	0	High	1	N/A								
MSA-6	156	83.3%	20.5%	0.6%	6-8	Orange	3	3	Orange	3	1	Low	0	N/A								
MSA-7	291	72.5%	29.9%	0.0%	K-5	Orange	3	1	Yellow	3	1	Medium	1	N/A								
MSA-Bell	471	84.3%	12.3%	0.0%	6-8	Yellow	5	2	Yellow	5	3	Medium	1	N/A								
MSA-SD	404	26.7%	4.5%	0.0%	6-8	Blue	6	0	Green	6	1	Low	0	N/A								
MSA-SA	674	81.5%	36.4%	0.0%	K-12	Orange	5	5	Yellow	5	1	Low	1	N/A	-	0	0					
MPS	3,947	76.3%	17.5%	0.0%	K-12	Orange	36	21	Yellow	37	20	Medium	6	N/A	Green	5	0					
MPS-LA	2,869	82.1%	14.9%	0.0%	K-12	Orange	25	16	Orange	26	18	Medium	5	N/A	Green	5	0					
LAUSD	453,276	84	21.8%	0.8%	P-Ad	Yellow	13	3	Yellow	13	4	Medium	1	N/A	Yellow	13	7					
SDUSD	103,194	58.1%	20.9%	0.2%	K-Ad	Green	13	4	Green	13	4	Medium	1	N/A	Green	11	2					
SAUSD	46,597	87.8%	34.8%	0.5%	P-Ad	Yellow	13	7	Orange	13	5	Low	1	N/A	Green	7	3					
STATE	6,186,278	80.9%	19.3%	0.5%	P-Ad	Green	13	5	Orange	13	7	Medium	1	N/A	Yellow	13	4					

						State Priority 5: Student Engagement									State Priority 6: School Climate		
						Graduation Rate (9-12)			Chronic Absenteeism Rate (K-8)			Suspension Rate (K-12)					
						All Students Perf.	Total Stu Grps	Grps Red / Org	All Students Perf.	Total Stu Grps	Grps Red / Org	All Students Perf.	Total Stu Grps	Grps Red / Org			
MSA-1	Blue	2	0	Orange	4	3	Orange	5	5								
MSA-2	Blue	2	0	Green	4	1	Blue	5	0								
MSA-3	Blue	1	0	Orange	3	3	Blue	5	0								
MSA-4	-	0	0	Yellow	2	0	Red	4	4								
MSA-5				-	0	0	-	0	0								
MSA-6				Red	3	3	Blue	3	0								
MSA-7				Orange	5	3	Blue	5	0								
MSA-Bell				Yellow	5	2	Yellow	5	1								
MSA-SD				Green	5	0	Green	5	2								
MSA-SA	-	0	0	Orange	5	4	Yellow	5	3								
MPS	Blue	5	0	Orange	36	19	Yellow	42	15								
MPS-LA	Blue	5	0	Orange	26	15	Yellow	32	10								
LAUSD	Orange	13	12	Red	13	13	Blue	13	0								
SDUSD	Yellow	11	4	Orange	13	11	Yellow	13	8								
SAUSD	Yellow	7	4	Orange	13	9	Yellow	13	3								
STATE	Orange	13	3	Orange	13	11	Yellow	13	4								

Fall 2019 - Equity Report																									
State Priority 4: Student Achievement																									
	2018-19						English Language Arts (3-8, 11)						Mathematics (3-8, 11)						English Learner Progress (1-12)						
	Enrollment	SED	EL	Foster Youth	Gr. Span		ALL	EL	SED	SWD	HOM	AA	HI	WH	MR	ALL	EL	SED	SWD	HOM	AA	HI	WH	MR	EL
MSA-1	580	88.5%	16.8%	0.0%	6-12		Orange	Y	O	O		O			Orange	Y	O	O			O				Medium
MSA-2	437	87.6%	11.9%	0.0%	6-12		Yellow	Y	O			Y			Yellow	O	O	O			Y				Very High
MSA-3	510	72.2%	5.3%	0.0%	6-12		Orange	R	O		O				Orange	R	O	R			R				Low
MSA-4	176	75.6%	9.1%	0.0%	6-12		Orange		O			O			Red		R								Very Low
MSA-5	248	88.7%	23.8%	0.0%	6-12		-								-										High
MSA-6	166	83.3%	20.5%	0.6%	6-8		Orange	O	O			O			Orange										Low
MSA-7	291	72.5%	29.8%	0.0%	K-5		Orange	O	Y			Y			Yellow	Y	Y				O				Medium
MSA-Bell	471	84.3%	12.3%	0.0%	6-8		Yellow	O	O			Y	Y		Yellow	O	O	O			Y	O			Medium
MSA-SD	404	26.7%	4.5%	0.0%	6-8		Blue	G	G	Y		B	B	G	Green	Y	G	O			B	G	G		Low
MSA-SA	674	81.5%	36.4%	0.0%	K-12		Orange	O	O	R	O	O			Yellow	O	Y	Y	Y		Y				Low
MPS	3,947	76.3%	17.5%	0.0%	K-12		Orange								Yellow										Medium
MPS-LA	2,869	82.1%	14.8%	0.0%	K-12		Orange								Orange										Medium
LAUSD	453,276	84	21.8%	0.8%	P-Ad		Yellow	Y	O	O	Y	Y	Y	G	Yellow	Y	Y	O	O	Y	Y	Y	G	G	Medium
SDUSD	103,164	58.1%	20.8%	0.2%	K-Ad		Green	O	O	O	Y	Y	Y	B	Green	O	Y	O	O	O	Y	Y	B	G	Medium
SAUSD	46,597	87.8%	34.8%	0.5%	P-Ad		Yellow	Y	Y	O	O	O	Y	O	Orange	O	Y	O	Y	Y	Y	Y	O	Y	Low
STATE	6,186,278	60.9%	19.3%	0.5%	P-Ad		Green	O	Y	O	Y	Y	Y	G	Orange	O	Y	O	O	O	O	Y	G	G	Medium

	State Priority 8: Outcomes in a Broad Course of Study						State Priority 5: Student Engagement											State Priority 6: School Climate																
	College / Career (9-12)						Graduation Rate (9-12)						Chronic Absenteeism Rate (K-8)											Suspension Rate (K-12)										
	ALL	SED	HI	ALL	SED	HI	ALL	EL	SED	SWD	HOM	AA	HI	WH	MR	ALL	EL	SED	SWD	HOM	AA	HI	WH	MR										
MSA-1	Blue	B	B	Blue	B	B	Orange	Y	O	O		O				Orange	O	O	O			O	O											
MSA-2	Green	G	G	Blue	B	B	Green	G	O			G				Blue	B	B	B			B	B											
MSA-3	Green	G	G	Blue	B	B	Orange	O			O					Blue	B	B	G			B	B											
MSA-4	-			-			Yellow		G			G				Red		R	R			R	O											
MSA-5							-									-																		
MSA-6							Red		O	R		O				Blue	B	B	B			B	B											
MSA-7							Orange	Y	O	R		R		G		Blue	B	B	B			B	B											
MSA-Bell							Yellow	G	Y	O		O		B		Yellow	O	Y	Y			Y	B											
MSA-SD							Green	Y	Y	Y		Y		B		Green	G	O	O			O	B											
MSA-SA							Orange	Y	O	O		O		O		Yellow	O	O	G			O	Y											
MPS	Green			Blue			Orange									Yellow																		
MPS-LA	Green			Blue			Orange									Yellow																		
LAUSD	Yellow	Y	Y	Orange	O	O	Red	R	R	R	R	R	R	R	R	Blue	B	B	B	B	G	B	B	B										
SDUSD	Green	Y	G	Yellow	Y	Y	Orange	O	O	R	O	O	Y	O	O	Yellow	O	O	O	O	R	O	G	Y										
SAUSD	Green	G	G	Yellow	Y	Y	Orange	O	O	O	O	O	O	O	O	Yellow	Y	Y	Y	Y	Y	Y	O	R										
STATE	Yellow	Y	G	Green	G	G	Orange	O	O	O	O	O	Y	O	O	Yellow	Y	Y	Y	O	O	Y	Y	Y										

CCSA's 2017-19 Accountability Metrics: Statewide and Similar Schools Ranking

CCSA publishes school Academic Accountability Reports that show the results of every charter school based on CCSA's Accountability Framework. Reports are available for all charter schools regardless of performance.

Statewide Rank

Based on CCSA's methodology of averaging Distance from Standard (DFS) in ELA and math and ranking all schools statewide out of 10 (10 being the highest rank), MPS schools are ranked as follows:

BASED ON CDE ACADEMIC INDICATOR DASHBOARD FILES RELEASED 10/8/19.

school code (last portion of CDS)	School Name	Statewide Rank (2019)*	Statewide Rank (2018)	Statewide Rank (2017)
		This is equivalent to a statewide rank out of 10, based on the schoolwide average Distance from Standard *Based on initial CAASPP results averaged to school level	This is equivalent to a statewide rank out of 10, based on the schoolwide average Distance from Standard	This is equivalent to a statewide rank out of 10, based on the schoolwide average Distance from Standard
0109157	Magnolia Science Academy San Diego	9	8	9
0115030	Magnolia Science Academy 3	2	3	4
0115212	Magnolia Science Academy 2	4	3	3
0117622	Magnolia Science Academy 4	1	2	1
0117648	Magnolia Science Academy 6	5	6	4
0117655	Magnolia Science Academy 7	6	6	7
0122747	Magnolia Science Academy Bell	3	3	4
0130765	Magnolia Science Academy Santa Ana	4	4	5
0137679	Magnolia Science Academy 5			
6119945	Magnolia Science Academy	5	5	5

Target: State Rank of 4 or above in 2 of 3 years.

School	Statewide Rank (2019)
MSA-SD	9
MSA-7	6
MSA-1	5
MSA-6	5
MSA-5	-
MSA-2	4
MSA-SA	4
MSA-Bell	3
MSA-3	2
MSA-4	1

Four of nine schools (MSA-1, 6, 7, and SD) have ranks of 5 and above. MSA-2 and MSA-SA have a ranking of 4. If MSA-5 had received a ranking, it would also have a rank of 5 or above. Overall, **seven of ten** MPS would score state rank of 4 or above meeting CCSA's initial filters for charter renewal considering 2019 only.

Similar Schools Rank

Source: <https://www.ccsa.org/what-we-do/student-success>

CCSA created the Similar Students Ranks (SSR), as a key component of the CCSA Accountability Framework. The Similar Students Rank (SSR) orders schools according to how their students perform on standardized tests compared to schools serving similar students statewide. It functions as a "proxy value-add" measure by comparing each school's performance to a prediction based on how schools with similar demographic characteristics perform.

The SSR sets a minimal bar of performance that allows for uniformly high expectations while taking into account students' backgrounds. The SSR is used as one component of CCSA's Minimum Academic Accountability Criteria, which also includes status, growth and post-secondary readiness. CCSA's Minimum Criteria do not attempt to measure or define high quality or supersede any performance goals set by the state or federal government. These criteria are only meant to determine which charters have academic outcomes that warrant academic renewal advocacy and which charters do not.

- To what extent is the school missing or surpassing its predicted performance?
- How does the school's difference between predicted and actual performance compare to all other schools in the state?

These questions are answered using linear regressions for each grade and subject. The regressions control for variables that are related to academic achievement (e.g., parent education, socioeconomic status, race/ethnicity, etc.). Actual achievement minus predicted achievement produces a raw SSR score. After averaging ELA and Math in each grade, CCSA weights the score by the number of valid scores per grade to obtain one number for each school. These school-level SSR scores are ranked from lowest to highest and allow us to place schools into the 10 decile ranks. The SSR calculation is based on publicly-reported achievement scores and tested-student demographics, as reported to the California Department of Education. CCSA does not produce SSR categories for schools that qualify for the DASS program, are Alternative, or have fewer than 30 valid scores.

Based on CCSA's similar students ranking, MPS schools are ranked as follows:

BASED ON CDE ACADEMIC INDICATOR DASHBOARD FILES RELEASED

		CCSA Accountability Metrics 2017 - 2019		
school code (last portion of CDS)	School Name	Similar Students Rank (2019)	Similar Students Rank (2018)	Similar Students Rank (2017)
		<small>This is equivalent to a similar schools rank out of 10. *note: this was calculated using scale scores and demographic of students served</small>	<small>This is equivalent to a similar schools rank out of 10. *note: this was calculated using scale scores and demographic of students served</small>	<small>This is equivalent to a similar schools rank out of 10. *note: this was calculated using scale scores and demographic of students served</small>
0109157	Magnolia Science Academy San Diego	9	4	6
0115030	Magnolia Science Academy 3	2	6	5
0115212	Magnolia Science Academy 2	5	4	3
0117622	Magnolia Science Academy 4	5	5	2
0117648	Magnolia Science Academy 6	10	10	9
0117655	Magnolia Science Academy 7	3	2	5
0122747	Magnolia Science Academy Bell	4	3	6
0130765	Magnolia Science Academy Santa Ana	6	7	8
0137679	Magnolia Science Academy 5			
6119945	Magnolia Science Academy	7	7	8

Target: Similar Students Rank of 4 or above in 2 of 3 years.

School	Similar Students Rank (2019)
MSA-6	10
MSA-SD	9
MSA-1	7
MSA-SA	6
MSA-2	5
MSA-4	5
MSA-5	-
MSA-Bell	4
MSA-7	3
MSA-3	2

Six of nine schools (MSA-1, 2, 4, 6, SD, and SA) have similar students ranks of 5 and above. MSA-Bell has a ranking of 4. If MSA-5 had received a ranking, it would also have a rank of 5 or above. Overall, **eight of ten** MPS would score state rank of 4 or above meeting CCSA's initial filters for charter renewal considering 2019 only.

CCSA's Multiple Measure Review

Source: <https://www.ccsasnapshots.org/ccsa-initial-filters>

CCSA's Accountability Framework

In 2009, CCSA's Member Council, in consultation with technical experts, led the development and introduction of a fair and transparent Accountability Framework that sets Minimum Academic Accountability Criteria to measure academic performance of charter schools. The framework provides all charter schools with tools to examine their individual performance and also helps present a clear picture of the performance continuum across the entire movement.

To this day, CCSA uses this framework to:

- Identify struggling schools in need of targeted interventions;
- Guide our advocacy efforts, in support of and in opposition to, renewing and replicating charter schools;
- Provide all charter schools with tools to examine their individual performance; and
- Help present a clear picture of the performance of the entire movement.

Minimum Academic Accountability Criteria

While there are many important aspects to measuring the performance of a charter school, CCSA believes student academic outcomes should be the single most important measure of a school's success at the time of charter renewal or replication.

CCSA's Accountability Framework is made up of two parts - an initial review of publicly available test score and postsecondary readiness data and then, for the subset of schools underperforming on all initial criteria, a Multiple Measures Review based on public and non-public data that is tailored to a school's mission and outcomes. CCSA's Minimum Academic Accountability Criteria does not apply for schools designated as DASS (Alternative), less than four years old, or schools with 30 or fewer valid test takers.

Initial Filters

Charters meeting ANY initial filter OR showing academic success through the Multiple Measure Review meet the academic threshold to receive CCSA's full advocacy support for renewal or replication. CCSA opposes renewal and replication for schools below ALL initial filters AND that do not demonstrate academic success through the Multiple Measure Review. CCSA updates these filters annually based on available data. As such the below initial filters are broken down by year:

Criteria for Schools Renewing in the 2020-2021 Academic Year

<p>1) Status Measure*</p> <ul style="list-style-type: none"> Schools must have a State Rank of 4 or above in 2 of 3 years. CCSA uses a weighted average of SBAC scale scores measuring how far the average student is above/below the "Met" standard and ranked 0-100th percentile statewide as well as turned into rankings of 1-10. (This is called the "Distance from Standard" or "DFS".)
<p>2) Growth* / Postsecondary readiness</p> <ul style="list-style-type: none"> Elementary/middle schools: Growth over time on SBAC An increase on the Distance from Standard "DFS" measure by at least 14 scale score points on SBAC between 2016-17 and 2018-19 (the 75th percentile of growth statewide.) High schools: 45% or more of 12th grade graduates are considered "prepared" on the College/Career CA School Dashboard indicator in 2 of 3 years.
<p>3) Similar Students</p> <ul style="list-style-type: none"> A Similar Students Rank of 4 or above in 2 of 3 years. This measures how schools are performing with similar students across the state.

Multiple Measure Review

Schools below ALL the initial filters can share outcomes aligned to California's 8 state priorities as described in the school's Local Control Accountability Plan (LCAP). Schools can tell their own story of success by choosing measures most closely aligned to their mission.

How did MPS schools perform on CCSA's Accountability Criteria?

All MPS schools meet CCSA's Accountability Criteria and qualify for renewal support based on academics.

School	OVERALL	State Rank	Similar Students Rank	% Prepared CCI (High School) or 3-Year Growth (Elem/Middle)
MSA-1	Above	Above	Above	Above
MSA-2	Above	Below	Above	Above
MSA-3	Above	Below	Above	Above
MSA-4	Above	Below	Above	Above
MSA-5	N/A	N/A	N/A	N/A
MSA-6	Above	Above	Above	Above
MSA-7	Above	Above	Below	Below
MSA-Bell	Above	Below	Above	Below
MSA-San Diego	Above	Above	Above	Below
MSA-Santa Ana	Above	Above	Above	Above

MSA-1:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy (Los Angeles County Office of Education)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2022

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-2:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

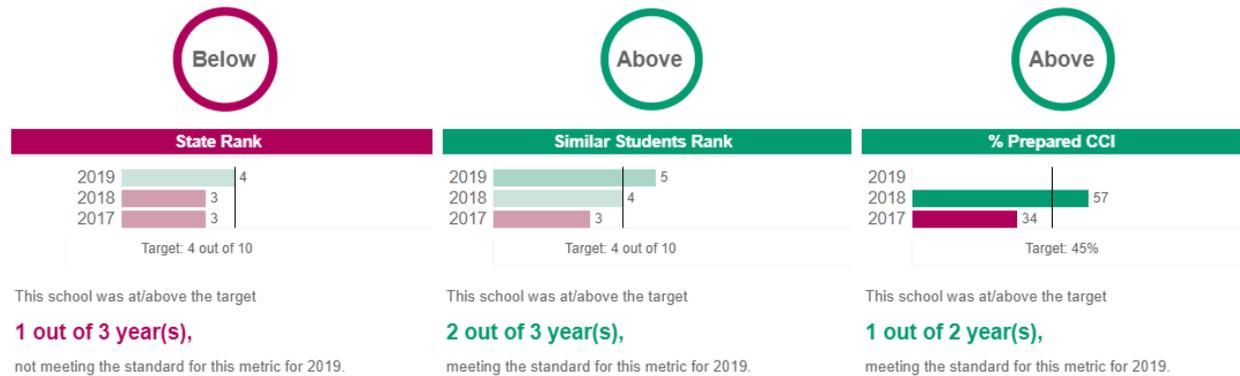
Magnolia Science Academy 2 (Los Angeles County Office of Education)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2022

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-3:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

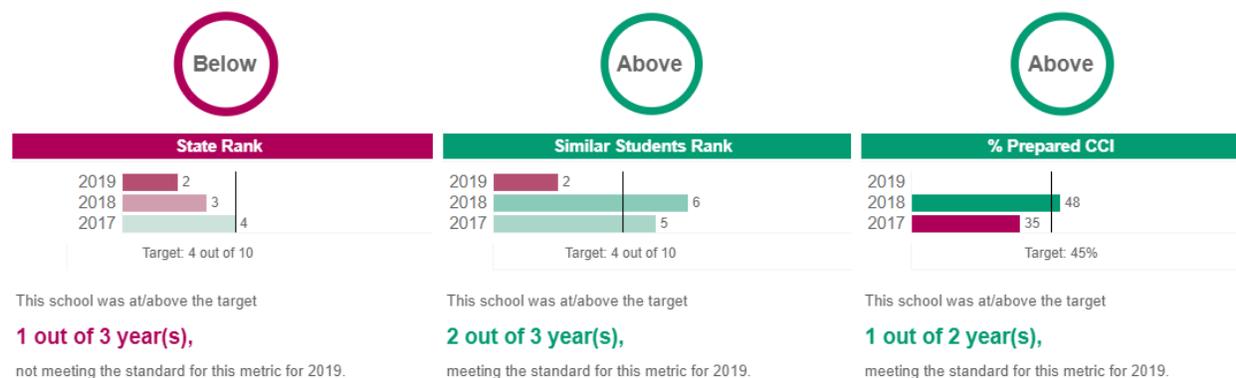
Magnolia Science Academy 3 (Los Angeles County Office of Education)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2022

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-4:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy 4 (Los Angeles Unified)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2023

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-5:

School is a small school, traditional public school, or DASS school and is not part of CCSA's accountability process.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy 5 (Los Angeles County Office of Education)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2023

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



This school's DFS changed by

Data Not Available

Data Not Available

*Data may be missing due to redactions of student groups le.. *Data may be missing due to redactions of student groups I.

MSA-6:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

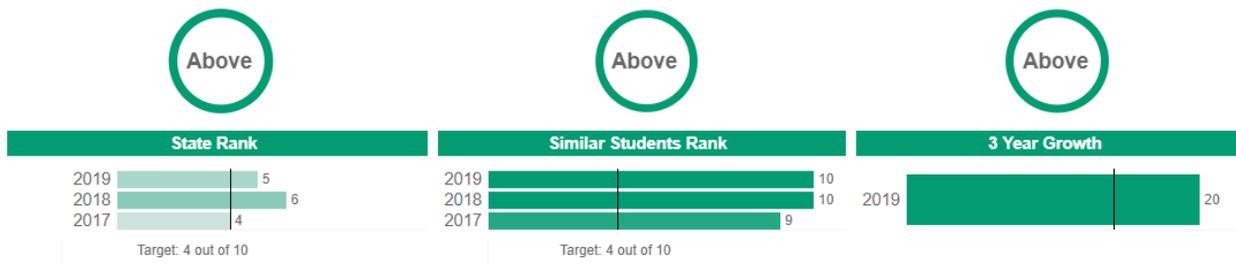
Magnolia Science Academy 6 (Los Angeles Unified)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2024

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



This school was at/above the target

3 out of 3 year(s),
meeting the standard for this metric for 2019.

This school was at/above the target

3 out of 3 year(s),
meeting the standard for this metric for 2019.

This school's DFS changed by

20 points,
meeting the 2019 target of 14 points.

MSA-7:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy 7 (Los Angeles Unified)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2024

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-Bell:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy Bell (Los Angeles Unified)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2020

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-San Diego:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

Magnolia Science Academy San Diego (San Diego Unified)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2020

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



MSA-Santa Ana:

School meets CCSA's Accountability Criteria and qualifies for renewal support based on academics.



CCSA Academic Accountability Report 2018-2019

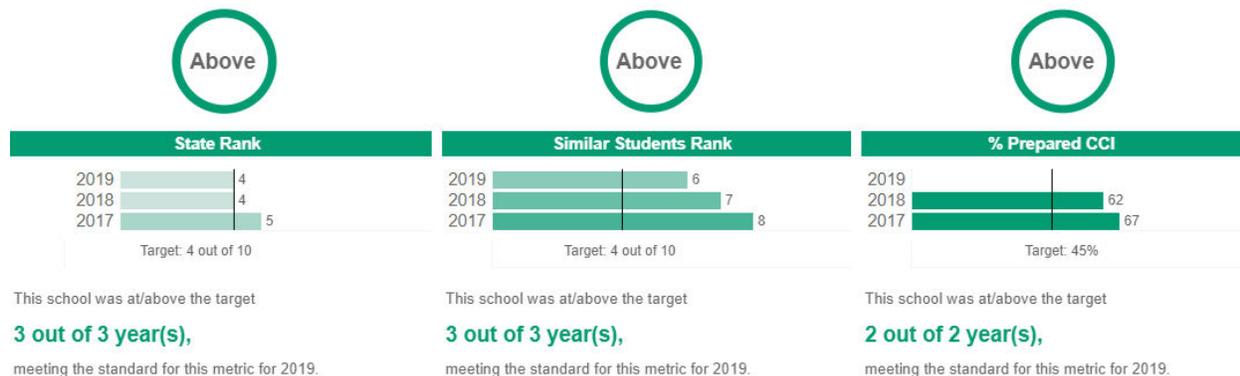
Magnolia Science Academy Santa Ana (State Board of Education)

Open Status 2019: Active
DASS Status: Non-DASS

Charter Renewal Date: June 30, 2024

2019-20 INITIAL FILTERS:

To meet CCSA's initial filters of accountability, a school must be above on at least one of the three filters below. See the **School Info Overview** tab above for more details.



Dashboard and the Charter School Renewal Criteria

Charter Renewal Criteria

Charter renewal criteria have been updated by the passage of AB 1505.

Link to AB 1505: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB1505

Assembly Bill No. 1505 ... Ed Code 47607. ...

(b) Renewals and material revisions of charters are governed by the standards and criteria described in Section 47605, and shall include, but not be limited to, a reasonably comprehensive description of any new requirement of charter schools enacted into law after the charter was originally granted or last renewed.

(c) (1) As an additional criterion for determining whether to grant a charter renewal, the chartering authority shall consider the performance of the charter school on the state and local indicators included in the evaluation rubrics adopted pursuant to Section 52064.5.

(2) (A) The chartering authority shall **not** deny renewal for a charter school pursuant to this subdivision if either of the following apply for **two consecutive years immediately preceding the renewal decision**:

(i) The charter school has received **the two highest performance levels schoolwide on all the state indicators included in the evaluation rubrics** adopted pursuant to Section 52064.5 for which it receives performance levels.

(ii) **For all measurements of academic performance, the charter school has received performance levels schoolwide that are the same or higher than the state average and, for a majority of subgroups performing statewide below the state average in each respective year, received performance levels that are higher than the state average.**

(iii) **Notwithstanding clauses (i) and (ii), a charter school eligible for technical assistance pursuant to Section 47607.3 shall not qualify for renewal under this paragraph.**

(iv) A charter school that meets the criteria established by this paragraph and subdivision (a) of Section 47607.2 shall not qualify for treatment under this paragraph.

(B) **The chartering authority that granted the charter may renew a charter pursuant to this paragraph for a period of between five and seven years.**

(C) A charter that satisfies the criteria in subparagraph (A) shall only be required to update the petition to include a reasonably comprehensive description of any new requirement of charter schools enacted into law after the charter was originally granted or last renewed and as necessary to reflect the current program offered by the charter.

(3) For purposes of this section and Section 47607.2, **"measurements of academic performance"** means indicators included in the evaluation rubrics adopted pursuant to Section 52064.5 that are based **on statewide assessments in the California Assessment of Student Performance and Progress system, or any successor system, the English**

Language Proficiency Assessments for California, or any successor system, and the college and career readiness indicator.

(4) For purposes of this section and Section 47607.2, “subgroup” means numerically significant pupil subgroups as defined in paragraph (1) of subdivision (a) of Section 52052.

(5) To qualify for renewal under clause (i) of subparagraph (A) of paragraph (2), subparagraph (A) of paragraph (1) of subdivision (a) of Section 47607.2, or paragraph (2) of subdivision (a) of Section 47607.2, the charter school shall have schoolwide performance levels on at least two measurements of academic performance per year in each of the two consecutive years immediately preceding the renewal decision. To qualify for renewal under clause (ii) of subparagraph (A) of paragraph (2), subparagraph (B) of paragraph (1) of subdivision (a) of Section 47607.2, or paragraph (2) of subdivision (a) of Section 47607.2, the charter school shall have performance levels on at least two measurements of academic performance for at least two subgroups. A charter school without sufficient performance levels to meet these criteria shall be considered under subdivision (b) of Section 47607.2.

(6) For purposes of this section and Section 47607.2, if the dashboard indicators are not yet available for the most recently completed academic year before renewal, the chartering authority shall consider verifiable data provided by the charter school related to the dashboard indicators, such as data from the California Assessment of Student Performance and Progress, or any successor system, for the most recent academic year.

(7) Paragraph (2) and subdivisions (a) and (b) of Section 47607.2 shall not apply to a charter school that is eligible for alternate methods for calculating the state and local indicators pursuant to subdivision (d) of Section 52064.5. In determining whether to grant a charter renewal for such a charter school, the chartering authority shall consider, in addition to the charter school’s performance on the state and local indicators included in the evaluation rubrics adopted pursuant to subdivision (c) of Section 52064.5, the charter school’s performance on alternative metrics applicable to the charter school based on the pupil population served. The chartering authority shall meet with the charter school during the first year of the charter school’s term to mutually agree to discuss alternative metrics to be considered pursuant to this paragraph and shall notify the charter school of the alternative metrics to be used within 30 days of this meeting. The chartering authority may deny a charter renewal pursuant to this paragraph only upon making written findings, setting forth specific facts to support the findings, that the closure of the charter school is in the best interest of pupils.

(d) (1) At the conclusion of the year immediately preceding the final year of the charter school’s term, the charter school authorizer may request, and the department shall provide, the following aggregate data reflecting pupil enrollment patterns at the charter school:

(A) The cumulative enrollment for each school year of the charter school’s term. For purposes of this chapter, cumulative enrollment is defined as the total number of pupils, disaggregated by race, ethnicity, and pupil subgroups, who enrolled in school at any time during the school year.

(B) For each school year of the charter school's term, the percentage of pupils enrolled at any point between the beginning of the school year and census day who were not enrolled at the conclusion of that year, and the average results on the statewide assessments in the California Assessment of Student Performance and Progress system, or any successor system, for any such pupils who were enrolled in the charter school the prior school year.

(C) For each school year of the charter school's term, the percentage of pupils enrolled the prior school year who were not enrolled as of census day for the school year, except for pupils who completed the grade that is the highest grade served by the charter school, and the average results on the statewide assessments in the California Assessment of Student Performance and Progress system, or any successor system, for any such pupils.

(2) When determining whether to grant a charter renewal, the chartering authority shall review data provided pursuant to paragraph (1), any data that may be provided to chartering authorities by the department, and any substantiated complaints that the charter school has not complied with subparagraph (J) of paragraph (5) of subdivision (c) of Section 47605 or with subparagraph (J) of paragraph (5) of subdivision (b) of Section 47605.6.

(3) As part of its determination of whether to grant a charter renewal based on the criterion established pursuant to subdivision (c) and subdivisions (a) and (b) of Section 47607.2, the chartering authority may make a finding that the charter school is not serving all pupils who wish to attend and, upon making such a finding, specifically identify the evidence supporting the finding.

(e) Notwithstanding subdivision (c) and subdivisions (a) and (b) of Section 47607.2, the chartering authority may deny renewal of a charter school upon a finding that the school is demonstrably unlikely to successfully implement the program set forth in the petition due to substantial fiscal or governance factors, or is not serving all pupils who wish to attend, as documented pursuant to subdivision (d). The chartering authority may deny renewal of a charter school under this subdivision only after it has provided at least 30 days' notice to the charter school of the alleged violation and provided the charter school with a reasonable opportunity to cure the violation, including a corrective action plan proposed by the charter school. The chartering authority may deny renewal only by making either of the following findings:

(1) The corrective action proposed by the charter school has been unsuccessful.

(2) The violations are sufficiently severe and pervasive as to render a corrective action plan unviable.

(f) A charter may be revoked by the chartering authority if the chartering authority finds, through a showing of substantial evidence, that the charter school did any of the following:

(1) Committed a material violation of any of the conditions, standards, or procedures set forth in the charter.

(2) Failed to meet or pursue any of the pupil outcomes identified in the charter.

(3) Failed to meet generally accepted accounting principles, or engaged in fiscal mismanagement.

(4) Violated any law.

47607.2. (a) (1) The chartering authority shall not renew a charter if either of the following apply for two consecutive years immediately preceding the renewal decision:

(A) The charter school has received the two lowest performance levels schoolwide on all the state indicators included in the evaluation rubrics adopted pursuant to Section 52064.5 for which it receives performance levels.

(B) For all measurements of academic performance, the charter school has received performance levels schoolwide that are the same or lower than the state average and, for a majority of subgroups performing statewide below the state average in each respective year, received performance levels that are lower than the state average.

(2) A charter school that meets the criteria established by this subdivision and paragraph (2) of subdivision (c) of Section 47607 shall only qualify for treatment under this subdivision.

(3) The chartering authority shall consider the following factors, and may renew a charter that meets the criteria in paragraph (1) only upon making a written factual finding, specific to the particular petition, setting forth specific facts to support the finding that the charter school is taking meaningful steps to address the underlying cause or causes of low performance, and those steps are reflected, or will be reflected, in a written plan adopted by the governing body of the charter school.

(4) For a charter renewed pursuant to this subdivision, the chartering authority may grant a renewal for a period of two years.

(b) (1) For all charter schools for which paragraph (2) of subdivision (c) of Section 47607 and subdivision (a) of this section do not apply, the chartering authority shall consider the schoolwide performance and performance of all subgroups of pupils served by the charter school on the state indicators included in the evaluation rubrics adopted pursuant to Section 52064.5 and the performance of the charter school on the local indicators included in the evaluation rubrics adopted pursuant to Section 52064.5.

(2) The chartering authority shall provide greater weight to performance on measurements of academic performance in determining whether to grant a charter renewal.

(3) The chartering authority may deny a charter renewal pursuant to this subdivision only upon making written findings, setting forth specific facts to support the findings, that the charter school has failed to meet or make sufficient progress toward meeting standards that provide a benefit to the pupils of the school, that closure of the charter school is in the best interest of pupils and, if applicable pursuant to paragraph (2), that its decision provided greater weight to performance on measurements of academic performance.

(4) For a charter renewed pursuant to this subdivision, the chartering authority shall grant a renewal for a period of five years.

Charter Renewal Criteria and MPSRenewal for a period of between five and seven years:

(2) (A) The chartering authority shall **not** deny renewal for a charter school pursuant to this subdivision if either of the following apply for **two consecutive years immediately preceding the renewal decision**:

(i) The charter school has received **the two highest performance levels schoolwide on all the state indicators included in the evaluation rubrics** adopted pursuant to Section 52064.5 for which it receives performance levels.

(ii) **For all measurements of academic performance, the charter school has received performance levels schoolwide that are the same or higher than the state average and, for a majority of subgroups performing statewide below the state average in each respective year, received performance levels that are higher than the state average.**

(iii) **Notwithstanding clauses (i) and (ii), a charter school eligible for technical assistance pursuant to Section 47607.3 shall not qualify for renewal under this paragraph.**

(iv) A charter school that meets the criteria established by this paragraph and subdivision (a) of Section 47607.2 shall not qualify for treatment under this paragraph.

(B) **The chartering authority that granted the charter may renew a charter pursuant to this paragraph for a period of between five and seven years.**

Criterion (2)(A)(i)

Based on criterion (2)(A)(i) which states charter school should have received the two highest performance levels schoolwide on all the state indicators, no MPS would qualify for this type of renewal. MSA-San Diego would get close. No MPS has all green or blue schoolwide performance for all state indicators across the board for two consecutive years.

Table 4: MSA-SD's schoolwide performance on the state indicators for the past two years

	English Language Arts (3-8)	Mathematics (3-8)	English Learner Progress (1-12)	College/Career (9-12)	Graduation Rate (9-12)	Chronic Absenteeism Rate (K-8)	Suspension Rate (K-12)
2018-19	Blue	Green	No color	N/A	N/A	Green	Green
2017-18	Green	Green	No color	N/A	N/A	Orange	Orange

Criterion (2)(A)(ii)

Based on criterion (2)(A)(ii) the first test is to check whether the school performed at or above state average for the academic measurements which are ELA, math, ELPI and CCI for the last two years. As shown in Table 5, MSA-SD meets this first test by performing above state average in ELA and math for two consecutive years.

Table 5: MSA-SD's schoolwide performance on the select state indicators for the past two years

	English Language Arts (3-8)		School >= State Average	Mathematics (3-8)		School >= State Average
2018-19	School: High 39.4 points above standard	State: Medium 3.0 points below standard	YES	School: High 21.8 points above standard	State: Low 33.5 points below standard	YES
2017-18	School: High 22.4 points above standard	State: Low 6.0 points below standard	YES	School: High 8.5 points above standard	State: Low 36.4 points below standard	YES

The second test for this criterion is to check student groups performing below the state average and comparing how those student groups performed at MSA-SD. If the majority of those groups performed higher at MSA-SD, the school would meet the second test and qualify for a renewal for a period of between five and seven years.

Non-renewal or renewal for a period of two years:

47607.2. (a) (1) The chartering authority shall not renew a charter if either of the following apply for two consecutive years immediately preceding the renewal decision:

(A) The charter school has received the two lowest performance levels schoolwide on all the state indicators included in the evaluation rubrics adopted pursuant to Section 52064.5 for which it receives performance levels.

(B) For all measurements of academic performance, the charter school has received performance levels schoolwide that are the same or lower than the state average and, for a majority of subgroups performing statewide below the state average in each respective year, received performance levels that are lower than the state average.

(2) A charter school that meets the criteria established by this subdivision and paragraph (2) of subdivision (c) of Section 47607 shall only qualify for treatment under this subdivision.

(3) The chartering authority shall consider the following factors, and may renew a charter that meets the criteria in paragraph (1) only upon making a written factual finding, specific to the particular petition, setting forth specific facts to support the finding that the charter school is taking meaningful steps to address the underlying cause or causes of low performance, and those steps are reflected, or will be reflected, in a written plan adopted by the governing body of the charter school.

(4) For a charter renewed pursuant to this subdivision, the chartering authority may grant a renewal for a period of two years.

We are happy to announce that no MPS performed all red or orange on all state indicators and passed the first test. We need to do further analysis for the student group test to ensure no MPS is subject to this non-renewal or two-year renewal criteria.

How Does MPS Make Use of the Dashboard Data?

Reflection and LCAP Development

Throughout the year, MPS Home Office trains the principals and deans on the new accountability system, including the CA School Dashboard, the new LCAP template, state and local indicators, and other aspects of state and federal accountability. School leadership at each MPS analyzes their dashboard data carefully, considers feedback from our stakeholders through surveys and other means, and evaluates the school programs. This collaborative process allows each school to identify their strengths (“glows” or “Greatest Progress” or “Successes”) and areas for improvement or refinement (“grows” or “Greatest Needs/Performance Gaps” or “Identified Needs”) as well as setting “goals” for the upcoming years with actionable steps and specific annual measurable outcomes (“LCAP Actions/Services” & “Increased or Improved Services for low-income students, English learners, and foster youth”).

Please keep in mind that Fall 2019 is the fourth release of the CA School Dashboard. We have two years of data points (2018-19 vs. 2017-18) in the Fall 2019 dashboard for our status and change for each state indicator. As we continue to get more data over the years, we make better sense of patterns and trends. MPS will strive to get all student groups to a performance color of Green or Blue, with no student groups in Red or Orange. School leaderships set targets/measurable outcomes based on calculations by taking into account next performance level cut-offs and for the “change” to be considered as “Increased” or “Increased Significantly” in most cases, and “Maintained” in some, depending on where the student data currently is (“status”).

The above-mentioned successes, identified needs, goals/targets and action steps will be developed collaboratively at each MPS school site with all stakeholders’ involvement and reflected in each school’s LCAP. School LCAPs will be brought before the board for approval at a regular board meeting before June 30.

Employee Evaluations

The employee evaluation policy below describes how MPS uses the Dashboard to calculate 20 percent of each employee’s evaluation.

Using Student Performance as a Measure of Employee Evaluation

MPS continually strives to develop and refine its Student Performance metric for the purpose of measuring student achievement and growth at our school sites, as well as to inform employee effectiveness. As introduced above, state and local accountability indicators along with interim and summative assessments provide valuable data on student performance and progress. MPS also recognizes that a variety of assessments can and should be used to measure student progress, such as performance assessments and portfolios. As such, MPS considers using a thoughtful combination of interim and summative assessments and state and local indicators, as well as student work. MPS needs to make sure that Student Performance data used is of high quality as agreed by all stakeholders. While evidence of Student Performance will be collected and analyzed during the evaluation process, developing and refining a definite Student Performance metric in each subject area is an ongoing process that involves the

collaboration of all our stakeholders. For practical calculation purposes and the fact that the CA School Dashboard provides performance levels for all students and for student groups on the state indicators, MPS will use the state indicators as its Student Performance metric unless a different metric is identified and agreed upon. MPS will base 20 percent of end-of-year overall evaluation on Student Performance.

The following example shows how the color-coded state indicator performance levels will be converted to points on the end-of-year overall evaluation. MPS will assign the following points to each color: Red-1, Orange-2, Yellow-3, Green-4, and Blue-5. For each state indicator, the average point (out of 5) will be calculated considering the assigned points for “all students” and each student group. After average points for each state indicator for a school are determined, these average points will be weighed such that the student achievement indicators/outcomes in a broad course of study, i.e., ELA, math, English Learner Progress Indicator (ELPI) and College and Career Readiness Indicator (CCI) will have double weight as the student engagement/school climate indicators, i.e., graduation rate, chronic absenteeism, and suspension rate. Finally, the overall score will be proportioned to 20 points since Student Performance will count as 20 percent of the end-of-year overall evaluation.

Example: Based on the following Student Group Report, a school will have the following points for each state indicator.

State Indicator	Performance Points Added for “All Students” and Student Groups	Points for Each State Indicator (out of 5)	Weight of State Indicator
Chronic Absenteeism	N/A	N/A	1
Suspension Rate	5+5+5+5+5+5=30 points out of possible 30 points	30/30 = 5/5 points	1
English Learner Progress	N/A	N/A	2
Graduation Rate	5+5+5=15 points out of possible 15 points	15/15 = 5/5 points	1
College/Career	N/A	N/A	2
English Language Arts	3+2+3+1+3=12 points out of possible 25 points	12/25 = 2.4/5 points	2
Mathematics	3+3+3+3+3=15 points out of possible 25 points	15/25 = 3/5 points	2

Student Group Report

Magnolia Science Academy - Los Angeles County

Enrollment: 540 Socioeconomically Disadvantaged: 93% English Learners: 12% Foster Youth: N/A Grade Span: 6-12 Charter School: Yes

Reporting Year: Spring 2017

Equity Report Status and Change Report Detailed Reports Student Group Report

This report shows the performance levels for all students and for each student group on the state indicators. Select any of the underlined indicators for more detailed information.

State Indicators	All Students	English Learners	Foster Youth	Homeless	Socioeconomically Disadvantaged	Students with Disabilities	American Indian	Asian	African American	Filipino	Hispanic	Pacific Islander	Two or More Races	White
Chronic Absenteeism		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>Suspension Rate (K-12)</u>			N/A	N/A			*	*	*	*		*	*	
English Learner Progress (K-12)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>Graduation Rate (9-12)</u>		*	N/A	N/A		*	*	*	*	*		*	*	*
<u>College / Career Available Fall 2017. Select for Grade 11 assessment results.</u>		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<u>English Language Arts (3-8)</u>			N/A	N/A			*	*	*	*		*	*	*
<u>Mathematics (3-8)</u>			N/A	N/A			*	*	*	*		*	*	*

Performance Levels: Blue (Highest) Green Yellow Orange Red (Lowest)

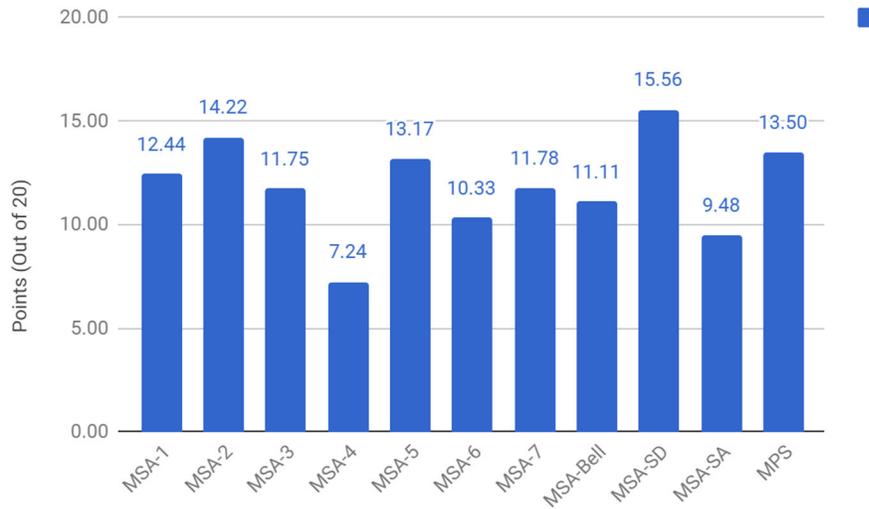
When the points for each state indicator are weighed, the school will get 5/5 points for the suspension rate, 5/5 points for the graduation rate, 4.8/10 for the ELA indicator, and 6/10 for the mathematics indicator, resulting in 20.8/30 points, corresponding to 13.87 points out of 20 points for each employee of the school on their end-of-year overall evaluation. *(For Home Office employees, the same method of calculation will be used considering all schools' performance points for "all students" and each student group for each indicator.)*

Evaluation Scores Based on the Dashboard

MPS has calculated student performance portion of employee evaluations as described in the policy above. The following are 2019-20 evaluation scores for MPS. We have also calculated scores for the districts and the state just to see how they would perform on MPS' Dashboard evaluation scoring metric. Most of the time stakeholders want to see a single overall number representing all the colors and indicators. The method MPS uses considers not only schoolwide performance but also each student group's performance. MPS also gives double weight to measurements of academic performance (ELA, math, ELPI, and CCI). This is consistent with the charter renewal criteria.

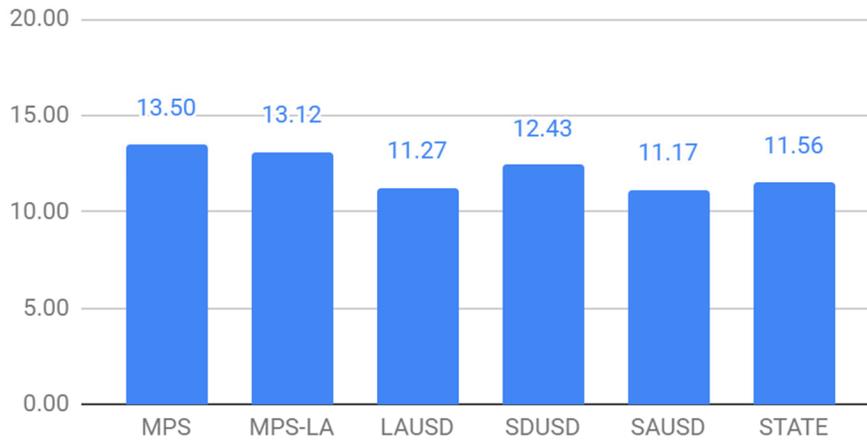
2019-20 Evaluation Points Based on the Fall 2019 CA School Dashboard				
	Pts	Max	%	Pts (out of 20)
MSA-1	28.00	45	62.22%	12.44
MSA-2	32.00	45	71.11%	14.22
MSA-3	26.43	45	58.74%	11.75
MSA-4	10.87	30	36.22%	7.24
MSA-5	19.75	30	65.83%	13.17
MSA-6	15.50	30	51.67%	10.33
MSA-7	17.67	30	58.89%	11.78
MSA-Bell	16.67	30	55.56%	11.11
MSA-SD	23.33	30	77.78%	15.56
MSA-SA	14.21	30	47.38%	9.48
MPS	30.38	45	67.51%	13.50
MPS-LA	29.52	45	65.60%	13.12
LAUSD	25.36	45	56.35%	11.27
SDUSD	27.96	45	62.14%	12.43
SAUSD	25.13	45	55.83%	11.17
STATE	26.00	45	57.78%	11.56

2019-20 Evaluation Points Based on the Fall 2019 CA School Dashboard



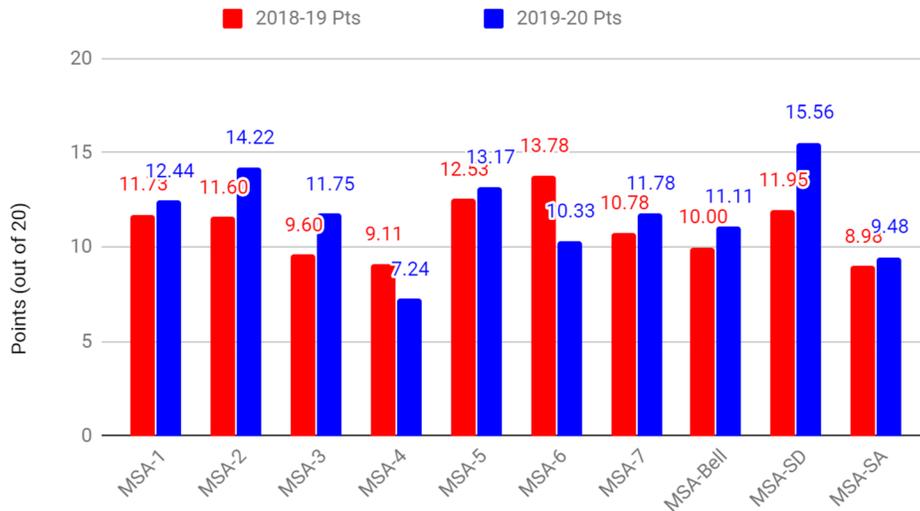
MPS outperforms the districts and the state based on MPS' Dashboard evaluation scoring metric.

2019-20 Evaluation Points Based on the Fall 2019 CA School Dashboard

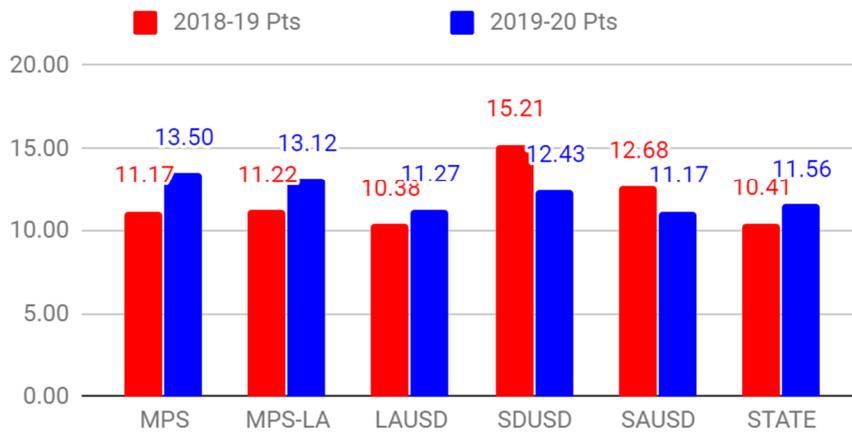


Eight of ten schools have increased their evaluation points based on the Dashboard.

2019-20 vs. 2018-19 Evaluation Points Based on the CA School Dashboard



2019-20 vs. 2018-19 Evaluation Points Based on the CA School Dashboard



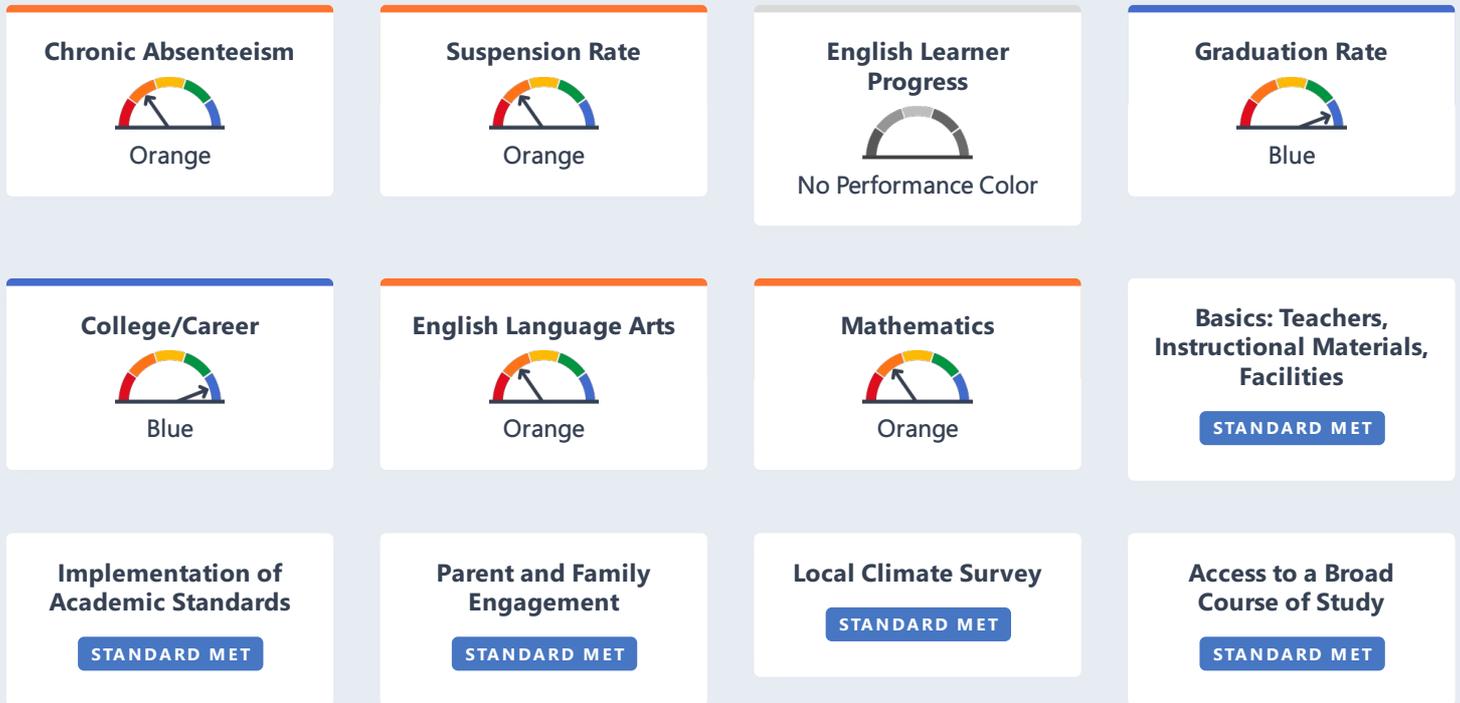
Exhibits (Attachments)

- School Performance Overview Report for each MSA

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

Explore the performance of Magnolia Science Academy under California's Accountability System.



School Details

NAME Magnolia Science Academy	ADDRESS 18238 Sherman Way Reseda, CA 91335-4550	WEBSITE http://msal.magnoliapu...	GRADES SERVED 6-12
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MAGNOLIA SCIENCE ACADEMY

Student Population

Explore information about this school's student population.



MAGNOLIA SCIENCE ACADEMY

Academic Performance

View Student Assessment Results and other aspects of school performance.

[LEARN MORE](#)

English Language Arts

Orange

13.9 points below standard

Declined 4.9 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	3 Orange	1 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

Mathematics

Orange

43.1 points below standard

Maintained 0.1 Points

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	3 Orange	1 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

English Learner Progress

52.6% making progress towards English language proficiency

Number of EL Students: 95

Progress Levels

Very High = 65% or higher
High = 55% to less than 65%
Medium = 45% to less than 55%
Low = 35% to less than 45%
Very Low = Less than 35%

[LEARN MORE](#)

College/Career

Blue

73.2% prepared

Increased 12.6% ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
0 Green	2 Blue	

Local Indicators

[LEARN MORE](#)

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY

Academic Engagement

See information that shows how well schools are engaging students in their learning.

[LEARN MORE](#)

Chronic Absenteeism

[LEARN MORE](#)

Graduation Rate



Orange

6.5% chronically absent

Increased 3.7% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Blue

97.2% graduated

Declined 2.8% ▼

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

[LEARN MORE](#)

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

[LEARN MORE](#)

Suspension Rate



Orange

2.3% suspended at least once

Increased 2.3% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

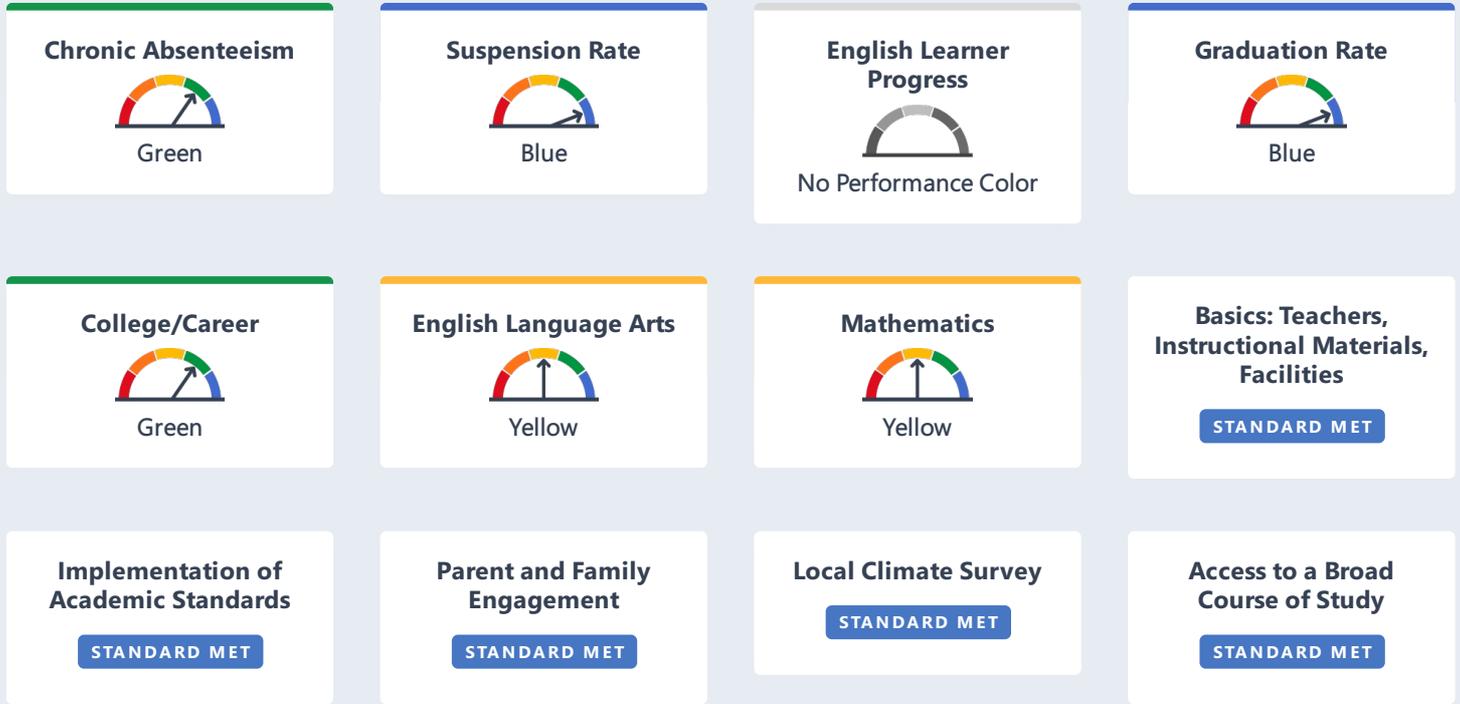
STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

2

Explore the performance of Magnolia Science Academy 2 under California's Accountability System.



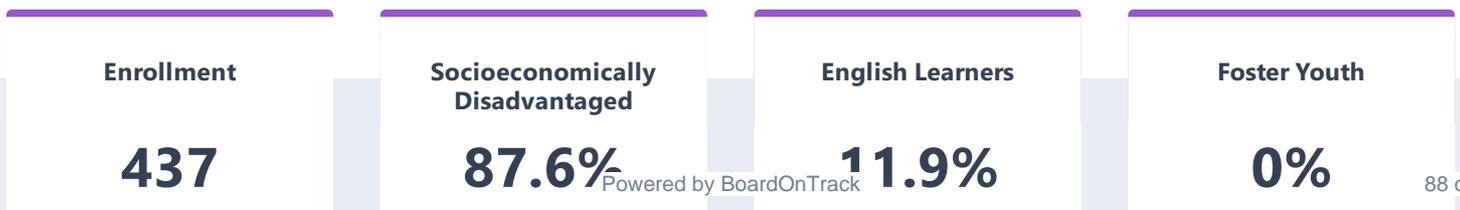
School Details

NAME Magnolia Science Academy 2	ADDRESS 17125 Victory Boulevard Van Nuys, CA 91406-5455	WEBSITE http://msa2.magnoliapu...	GRADES SERVED 6-12
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MAGNOLIA SCIENCE ACADEMY 2

Student Population

Explore information about this school's student population.



MAGNOLIA SCIENCE ACADEMY 2

Academic Performance

View Student Assessment Results and other aspects of school performance.

LEARN MORE

English Language Arts

Yellow

17.4 points below standard

Increased 20 Points ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	1 Orange	3 Yellow
0 Green	0 Blue	

LEARN MORE

Mathematics

Yellow

60.8 points below standard

Increased 5.6 Points ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	3 Orange	1 Yellow
0 Green	0 Blue	

LEARN MORE

English Learner Progress

71.4% making progress towards English language proficiency

Number of EL Students: 49

Progress Levels

Very High = 65% or higher
High = 55% to less than 65%
Medium = 45% to less than 55%
Low = 35% to less than 45%
Very Low = Less than 35%

LEARN MORE

College/Career

Green

60.5% prepared

Increased 2.6% ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
2 Green	0 Blue	

Local Indicators

LEARN MORE

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 2

Academic Engagement

See information that shows how well schools are engaging students in their learning.

LEARN MORE

Chronic Absenteeism



Green

8% chronically absent

Declined 0.6% ▼

EQUITY REPORT

Number of Student Groups in Each Color



LEARN MORE

Graduation Rate



Blue

97.6% graduated

Increased 7.9% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 2

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Blue

0% suspended at least once

Declined 0.4% ▼

EQUITY REPORT

Number of Student Groups in Each Color



0

Green

5

Blue

Local Indicators

LEARN MORE

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

LEARN MORE

**Parent and Family
Engagement**

STANDARD MET

LEARN MORE

Local Climate Survey

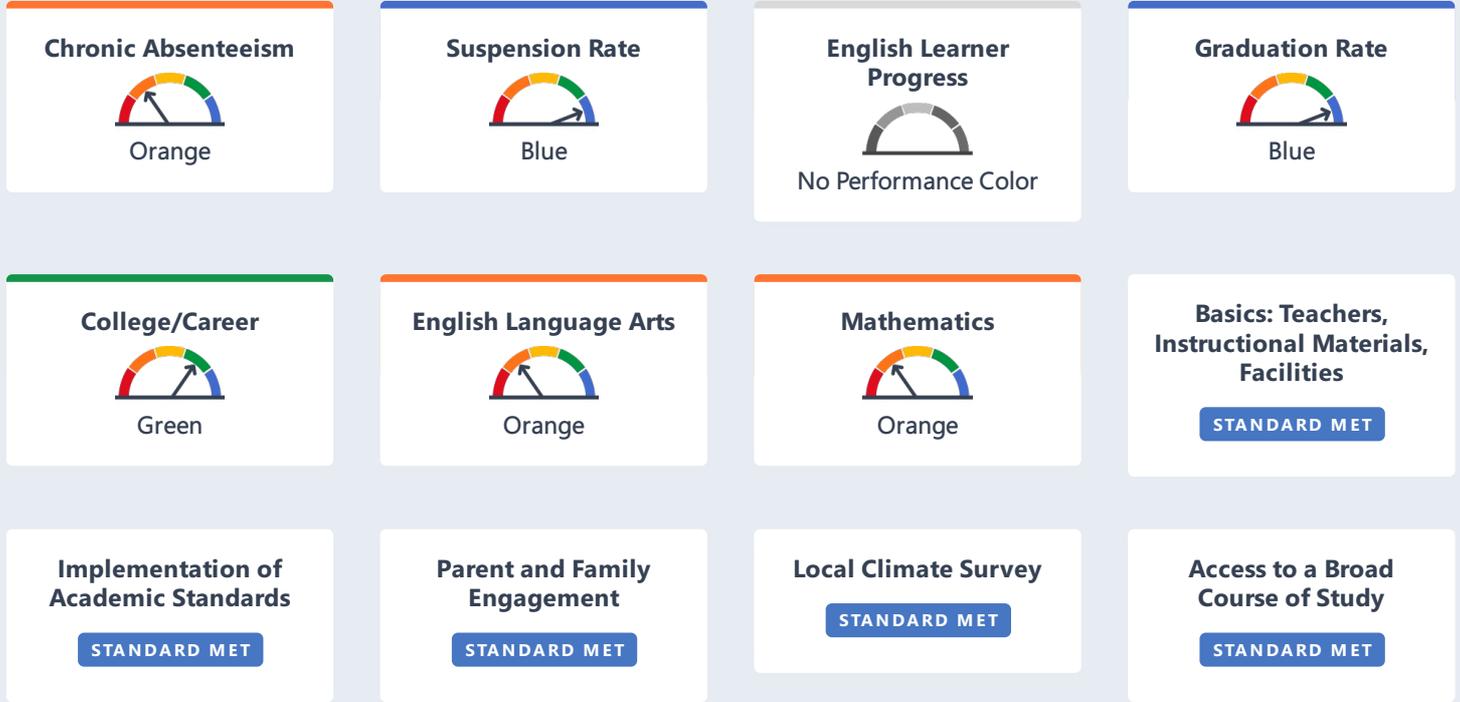
STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

3

Explore the performance of Magnolia Science Academy 3 under California's Accountability System.



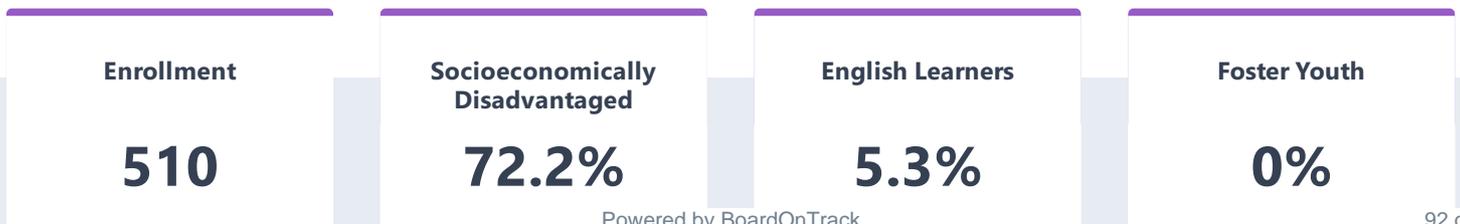
School Details

NAME Magnolia Science Academy 3	ADDRESS 1254 East Helmick Street Carson, CA 90746-3164	WEBSITE http://msa3.magnoliapu...	GRADES SERVED 6-12
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MAGNOLIA SCIENCE ACADEMY 3

Student Population

Explore information about this school's student population.



MAGNOLIA SCIENCE ACADEMY 3

Academic Performance

View Student Assessment Results and other aspects of school performance.

[LEARN MORE](#)

English Language Arts

Orange

40.8 points below standard

Declined 21.4 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

1 Red	3 Orange	0 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

Mathematics

Orange

89.6 points below standard

Declined 13.8 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

3 Red	2 Orange	0 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

English Learner Progress

60.9% making progress towards English language proficiency

Number of EL Students: 23

Progress Levels

Very High = 65% or higher
High = 55% to less than 65%
Medium = 45% to less than 55%
Low = 35% to less than 45%
Very Low = Less than 35%

[LEARN MORE](#)

College/Career

Green

56.3% prepared

Increased 8.5% ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
1 Green	0 Blue	

Local Indicators

[LEARN MORE](#)

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 3

Academic Engagement

See information that shows how well schools are engaging students in their learning.

[LEARN MORE](#)

[LEARN MORE](#)

Chronic Absenteeism



Orange

7.2% chronically absent

Increased 1% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Graduation Rate



Blue

95.9% graduated

Maintained 0.5%

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

[LEARN MORE](#)

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 3

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

[LEARN MORE](#)

Suspension Rate



Blue

1.3% suspended at least once

Declined 2.9% ▼

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

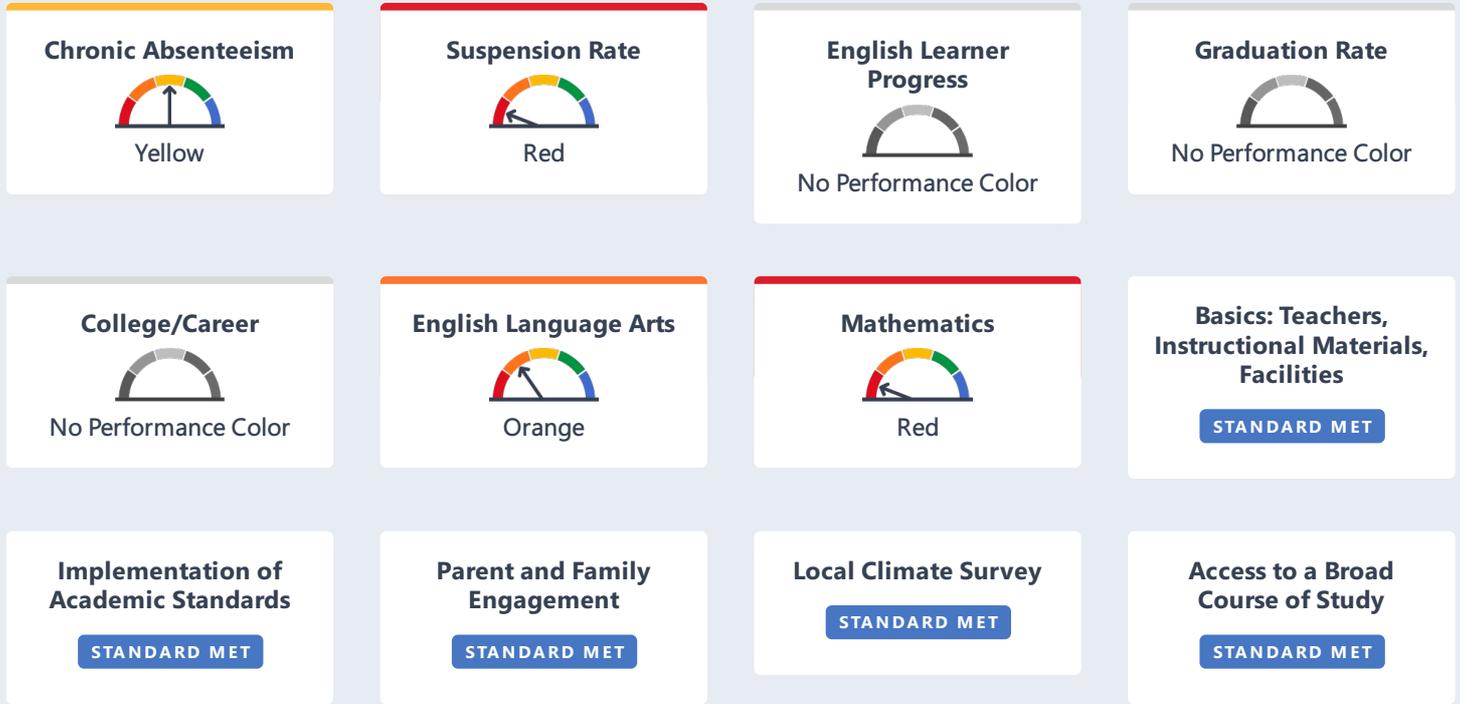
STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

4

Explore the performance of Magnolia Science Academy 4 under California's Accountability System.



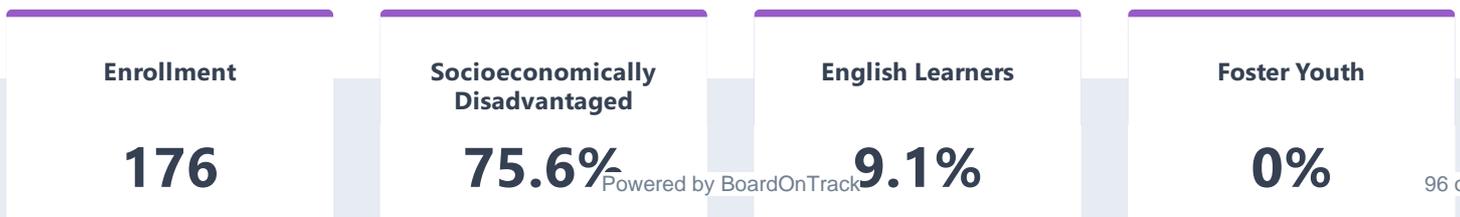
School Details

NAME Magnolia Science Academy 4	ADDRESS 11330 West Graham Place, B-9 Los Angeles, CA 90064	WEBSITE http://msa4.magnoliapu...	GRADES SERVED 6-12
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MAGNOLIA SCIENCE ACADEMY 4

Student Population

Explore information about this school's student population.



MAGNOLIA SCIENCE ACADEMY 4

Academic Performance

View Student Assessment Results and other aspects of school performance.

[LEARN MORE](#)

English Language Arts



Orange

57.5 points below standard

Declined 27.2 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	2 Orange	0 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

Mathematics



Red

133.7 points below standard

Declined 21.1 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

2 Red	0 Orange	0 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

English Learner Progress

28.6% making progress towards English language proficiency

Number of EL Students: 14

Progress Levels

Very High = 65% or higher
High = 55% to less than 65%
Medium = 45% to less than 55%
Low = 35% to less than 45%
Very Low = Less than 35%

[LEARN MORE](#)

College/Career



No Performance Color

55% prepared

Maintained 1.2%

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
0 Green	0 Blue	

Local Indicators

[LEARN MORE](#)

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 4

Academic Engagement

See information that shows how well schools are engaging students in their learning.

Chronic Absenteeism



Yellow

11.6% chronically absent

Declined 1.3% ▼

EQUITY REPORT

Number of Student Groups in Each Color



Graduation Rate



No Performance Color

97.6% graduated

Increased 1.4% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 4

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Red

7.5% suspended at least once

Increased 7.5% ▲

EQUITY REPORT

Number of Student Groups in Each Color



0
Green

0
Blue

Local Indicators

LEARN MORE

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

LEARN MORE

**Parent and Family
Engagement**

STANDARD MET

LEARN MORE

Local Climate Survey

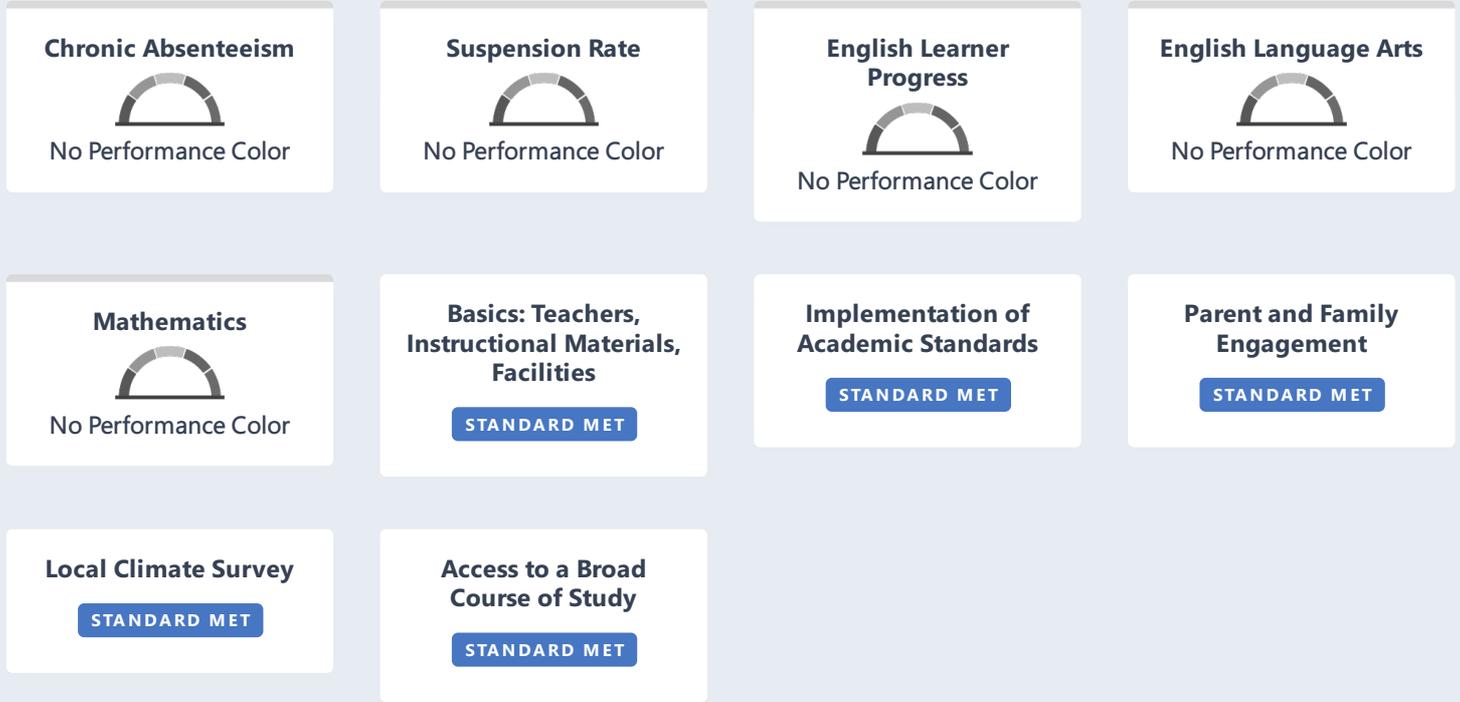
STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

5

Explore the performance of Magnolia Science Academy 5 under California's Accountability System.



School Details

NAME Magnolia Science Academy 5	ADDRESS 18230 Kittridge Street Reseda, CA 91335-6121	WEBSITE http://msa5.magnoliapu...	GRADES SERVED 6-12
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MAGNOLIA SCIENCE ACADEMY 5

Student Population

Explore information about this school's student population.



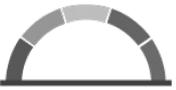
MAGNOLIA SCIENCE ACADEMY 5

Academic Performance

View Student Assessment Results and other aspects of school performance.

LEARN MORE

English Language Arts



No Performance Color

12.8 points below standard

No Data

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
0 Green	0 Blue	

LEARN MORE

Mathematics



No Performance Color

17.9 points below standard

No Data

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
0 Green	0 Blue	

LEARN MORE

English Learner Progress

56.3% making progress towards English language proficiency

Number of EL Students:
48

Progress Levels

Very High = 65% or higher

High = 55% to less than 65%

Medium = 45% to less than 55%

Low = 35% to less than 45%

Very Low = Less than 35%

Local Indicators

LEARN MORE

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 5

Academic Engagement

See information that shows how well schools are engaging students in their learning.

LEARN MORE



No Performance Color

7.4% chronically absent

No Data

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

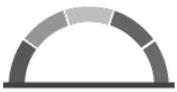
MAGNOLIA SCIENCE ACADEMY 5

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



No Performance Color

1.2% suspended at least once

No Data

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

6

Explore the performance of Magnolia Science Academy 6 under California's Accountability System.

Chronic Absenteeism  Red	Suspension Rate  Blue	English Learner Progress  No Performance Color	English Language Arts  Orange
Mathematics  Orange	Basics: Teachers, Instructional Materials, Facilities STANDARD MET	Implementation of Academic Standards STANDARD MET	Parent and Family Engagement STANDARD MET
Local Climate Survey STANDARD MET	Access to a Broad Course of Study STANDARD MET		

School Details

NAME Magnolia Science Academy 6	ADDRESS 3754 Dunn Drive Los Angeles, CA 90034-5805	WEBSITE http://www.msa6.magn...	GRADES SERVED 6-8
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MAGNOLIA SCIENCE ACADEMY 6

Student Population

Explore information about this school's student population.

Enrollment 156	Socioeconomically Disadvantaged 83.3%	English Learners 20.5%	Foster Youth 0.6%
---------------------------------	--	---	------------------------------------

MAGNOLIA SCIENCE ACADEMY 6

Academic Performance

View Student Assessment Results and other aspects of school performance.

LEARN MORE

English Language Arts



Orange

17.4 points below standard

Declined 14 Points ▼

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	3 <small>Orange</small>	0 <small>Yellow</small>
0 <small>Green</small>	0 <small>Blue</small>	

LEARN MORE

Mathematics



Orange

35.9 points below standard

Maintained 2.5 Points

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	1 <small>Orange</small>	2 <small>Yellow</small>
0 <small>Green</small>	0 <small>Blue</small>	

LEARN MORE

English Learner Progress

44.8% making progress towards English language proficiency

Number of EL Students:
29

Progress Levels

Very High = 65% or higher

High = 55% to less than 65%

Medium = 45% to less than 55%

Low = 35% to less than 45%

Very Low = Less than 35%

Local Indicators

LEARN MORE

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 6

Academic Engagement

See information that shows how well schools are engaging students in their learning.

Chronic Absenteeism



Red

14.1% chronically absent

Increased 12.9% ▲

EQUITY REPORT

Number of Student Groups in Each Color

1 Red	2 Orange	0 Yellow
0 Green	0 Blue	

Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 6

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Blue

0% suspended at least once

Declined 0.6% ▼

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow

0
Green

3
Blue

Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy

7

Explore the performance of Magnolia Science Academy 7 under California's Accountability System.

Chronic Absenteeism  Orange	Suspension Rate  Blue	English Learner Progress  No Performance Color	English Language Arts  Orange
Mathematics  Yellow	Basics: Teachers, Instructional Materials, Facilities STANDARD MET	Implementation of Academic Standards STANDARD MET	Parent and Family Engagement STANDARD MET
Local Climate Survey STANDARD MET	Access to a Broad Course of Study STANDARD MET		

School Details

NAME Magnolia Science Academy 7	ADDRESS 18355 Roscoe Boulevard Northridge, CA 91325-4104	WEBSITE http://msa7.magnoliapu...	GRADES SERVED K-5
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MAGNOLIA SCIENCE ACADEMY 7

Student Population

Explore information about this school's student population.

Enrollment 291	Socioeconomically Disadvantaged 72.5%	English Learners 29.9%	Foster Youth 0%
---------------------------------	--	---	----------------------------------

MAGNOLIA SCIENCE ACADEMY 7

Academic Performance

View Student Assessment Results and other aspects of school performance.

LEARN MORE

English Language Arts



Orange

7.7 points below standard

Maintained 1.1 Points

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	1 <small>Orange</small>	2 <small>Yellow</small>
0 <small>Green</small>	0 <small>Blue</small>	

LEARN MORE

Mathematics



Yellow

32.1 points below standard

Increased 3 Points ▲

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	1 <small>Orange</small>	2 <small>Yellow</small>
0 <small>Green</small>	0 <small>Blue</small>	

LEARN MORE

English Learner Progress

46.4% making progress towards English language proficiency

Number of EL Students:
56

Progress Levels

Very High = 65% or higher

High = 55% to less than 65%

Medium = 45% to less than 55%

Low = 35% to less than 45%

Very Low = Less than 35%

Local Indicators

LEARN MORE

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 7

Academic Engagement

See information that shows how well schools are engaging students in their learning.

Chronic Absenteeism



Orange

13% chronically absent

Maintained -0.3%

EQUITY REPORT

Number of Student Groups in Each Color

2 Red	1 Orange	1 Yellow
1 Green	0 Blue	

Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY 7

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Blue

0% suspended at least once

Maintained 0%

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow

0
Green

5
Blue

Local Indicators

LEARN MORE

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

LEARN MORE

**Parent and Family
Engagement**

STANDARD MET

LEARN MORE

Local Climate Survey

STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy Bell

Explore the performance of Magnolia Science Academy Bell under California's Accountability System.

Chronic Absenteeism  Yellow	Suspension Rate  Yellow	English Learner Progress  No Performance Color	English Language Arts  Yellow
Mathematics  Yellow	Basics: Teachers, Instructional Materials, Facilities STANDARD MET	Implementation of Academic Standards STANDARD MET	Parent and Family Engagement STANDARD MET
Local Climate Survey STANDARD MET	Access to a Broad Course of Study STANDARD MET		

School Details

NAME Magnolia Science Academy Bell	ADDRESS 6411 Orchard Avenue Bell, CA 90201-1023	WEBSITE http://msa8.magnoliasci...	GRADES SERVED 6-8
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MAGNOLIA SCIENCE ACADEMY BELL

Student Population

Explore information about this school's student population.

Enrollment 471	Socioeconomically Disadvantaged 84.3%	English Learners 12.3%	Foster Youth 0%
---------------------------------	--	---	----------------------------------

MAGNOLIA SCIENCE ACADEMY BELL

Academic Performance

View Student Assessment Results and other aspects of school performance.

[LEARN MORE](#)

English Language Arts



Yellow

19.1 points below standard

Increased 13.4 Points ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	2 Orange	3 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

Mathematics



Yellow

74 points below standard

Increased 7 Points ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	3 Orange	2 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

English Learner Progress

52.7% making progress towards English language proficiency

Number of EL Students:
55

Progress Levels

Very High = 65% or higher
 High = 55% to less than 65%
 Medium = 45% to less than 55%
 Low = 35% to less than 45%
 Very Low = Less than 35%

Local Indicators

[LEARN MORE](#)

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY BELL

Academic Engagement

See information that shows how well schools are engaging students in their learning.

[LEARN MORE](#)



Yellow

5% chronically absent

Increased 1.8% ▲

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	2 Orange	1 Yellow
1 Green	1 Blue	

Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY BELL

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Yellow

1.4% suspended at least once

Increased 1.4% ▲

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	1 Orange	3 Yellow
0 Green	1 Blue	

Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy San Diego

Explore the performance of Magnolia Science Academy San Diego under California's Accountability System.

Chronic Absenteeism  Green	Suspension Rate  Green	English Learner Progress  No Performance Color	English Language Arts  Blue
Mathematics  Green	Basics: Teachers, Instructional Materials, Facilities STANDARD MET	Implementation of Academic Standards STANDARD MET	Parent and Family Engagement STANDARD MET
Local Climate Survey STANDARD MET	Access to a Broad Course of Study STANDARD MET		

School Details

NAME Magnolia Science Academy San Diego	ADDRESS 6525 Estrella Avenue San Diego, CA 92120-2707	WEBSITE http://msasd.magnoliap...	GRADES SERVED 6-8
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MAGNOLIA SCIENCE ACADEMY SAN DIEGO

Student Population

Explore information about this school's student population.

Enrollment 404	Socioeconomically Disadvantaged 26.7%	English Learners 4.5%	Foster Youth 0%
---------------------------------	--	--	----------------------------------

MAGNOLIA SCIENCE ACADEMY SAN DIEGO

Academic Performance

View Student Assessment Results and other aspects of school performance.

LEARN MORE

English Language Arts



Blue

39.4 points above standard

Increased 17 Points ▲

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	0 <small>Orange</small>	1 <small>Yellow</small>
3 <small>Green</small>	2 <small>Blue</small>	

LEARN MORE

Mathematics



Green

21.8 points above standard

Increased 13.2 Points ▲

EQUITY REPORT

Number of Student Groups in Each Color

0 <small>Red</small>	1 <small>Orange</small>	1 <small>Yellow</small>
3 <small>Green</small>	1 <small>Blue</small>	

LEARN MORE

English Learner Progress

53.3% making progress towards English language proficiency

Number of EL Students:
15

Progress Levels

Very High = 65% or higher
 High = 55% to less than 65%
 Medium = 45% to less than 55%
 Low = 35% to less than 45%
 Very Low = Less than 35%

Local Indicators

LEARN MORE

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY SAN DIEGO

Academic Engagement

See information that shows how well schools are engaging students in their learning.

Chronic Absenteeism



Green

7.6% chronically absent

Declined 2.2% ▼

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	0 Orange	3 Yellow
1 Green	1 Blue	

Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY SAN DIEGO

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



Green

1.8% suspended at least once

Declined 0.7% ▼

EQUITY REPORT

Number of Student Groups in Each Color

0 Red	2 Orange	0 Yellow

1

Green

2

Blue

Local Indicators

LEARN MORE

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

LEARN MORE

**Parent and Family
Engagement**

STANDARD MET

LEARN MORE

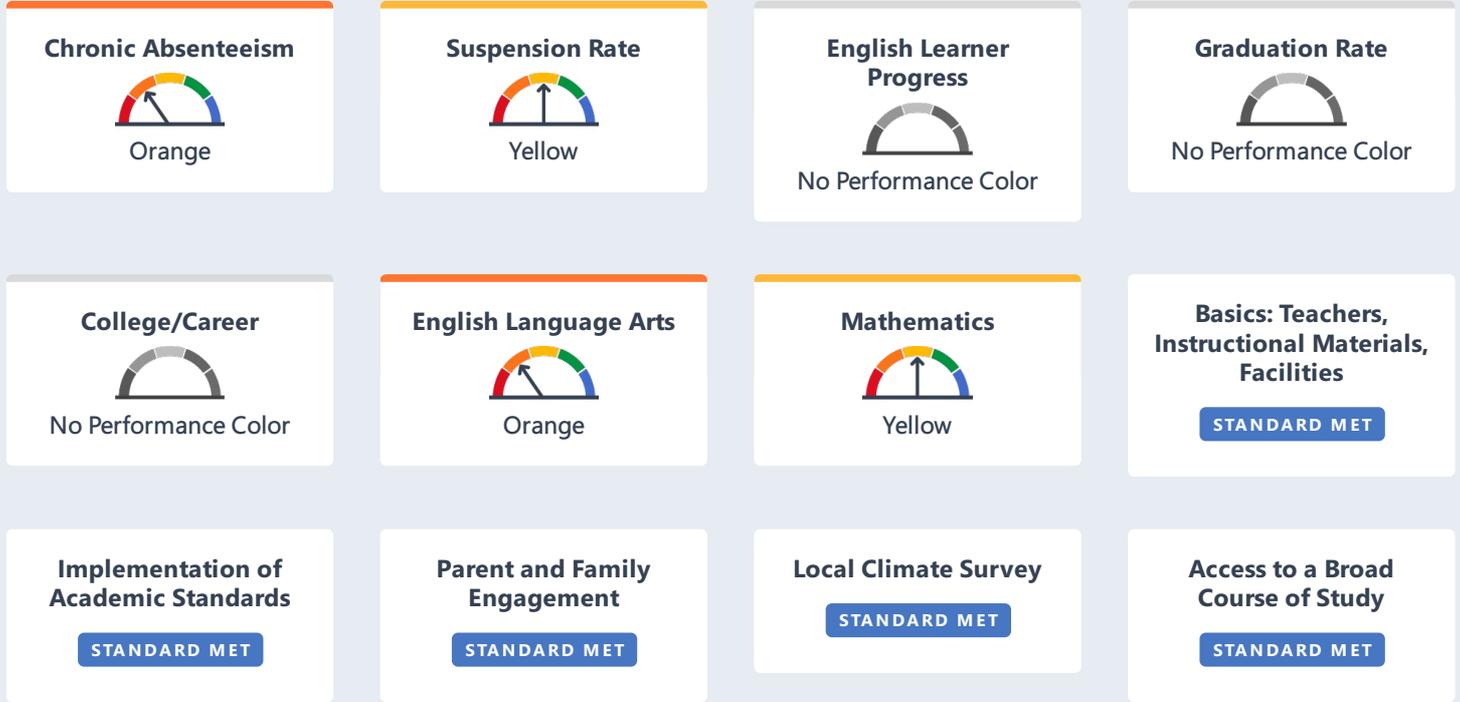
Local Climate Survey

STANDARD MET

SCHOOL PERFORMANCE OVERVIEW

Magnolia Science Academy Santa Ana (SBE)

Explore the performance of Magnolia Science Academy Santa Ana (SBE) under California's Accountability System.



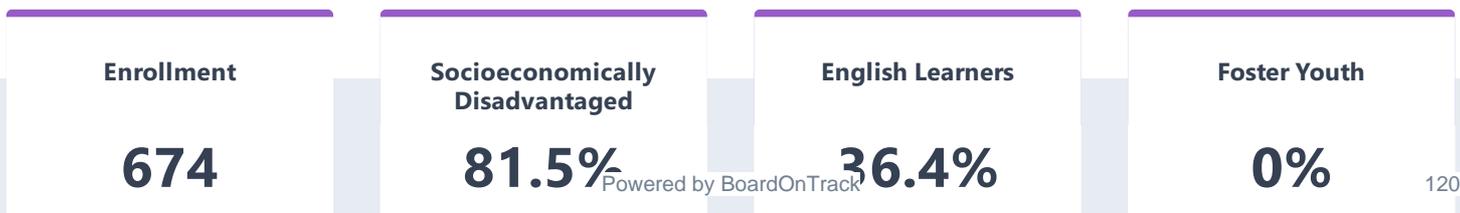
School Details

NAME Magnolia Science Academy Santa Ana (SBE)	ADDRESS 2840 West 1st Street Santa Ana, CA 92703-4102	WEBSITE http://www.msasa.mag...	GRADES SERVED K-12
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MAGNOLIA SCIENCE ACADEMY SANTA ANA (SBE)

Student Population

Explore information about this school's student population.



MAGNOLIA SCIENCE ACADEMY SANTA ANA (SBE)

Academic Performance

View Student Assessment Results and other aspects of school performance.

[LEARN MORE](#)

English Language Arts

Orange

35 points below standard

Declined 11 Points ▼

EQUITY REPORT
Number of Student Groups in Each Color

1 Red	4 Orange	0 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

Mathematics

Yellow

50.8 points below standard

Increased 8.6 Points ▲

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	1 Orange	4 Yellow
0 Green	0 Blue	

[LEARN MORE](#)

English Learner Progress

41.9% making progress towards English language proficiency

Number of EL Students: 210

Progress Levels

Very High = 65% or higher
High = 55% to less than 65%
Medium = 45% to less than 55%
Low = 35% to less than 45%
Very Low = Less than 35%

[LEARN MORE](#)

College/Career

No Performance Color

52.8% prepared

Declined 8.8% ▼

EQUITY REPORT
Number of Student Groups in Each Color

0 Red	0 Orange	0 Yellow
0 Green	0 Blue	

Local Indicators

[LEARN MORE](#)

Implementation of Academic Standards

STANDARD MET

MAGNOLIA SCIENCE ACADEMY SANTA ANA (SBE)

Academic Engagement

See information that shows how well schools are engaging students in their learning.

Chronic Absenteeism



Orange

8.5% chronically absent

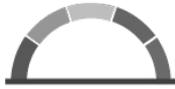
Increased 1.2% ▲

EQUITY REPORT

Number of Student Groups in Each Color



Graduation Rate



No Performance Color

91.7% graduated

Declined 1.2% ▼

EQUITY REPORT

Number of Student Groups in Each Color



Local Indicators

LEARN MORE

Access to a Broad Course of Study

STANDARD MET

MAGNOLIA SCIENCE ACADEMY SANTA ANA (SBE)

Conditions & Climate

View data related to how well schools are providing a healthy, safe and welcoming environment.

LEARN MORE

Suspension Rate



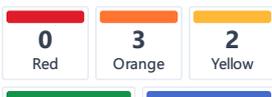
Yellow

2.5% suspended at least once

Increased 0.4% ▲

EQUITY REPORT

Number of Student Groups in Each Color



1

Green

0

Blue

Local Indicators

[LEARN MORE](#)

**Basics: Teachers,
Instructional Materials,
Facilities**

STANDARD MET

[LEARN MORE](#)

**Parent and Family
Engagement**

STANDARD MET

[LEARN MORE](#)

Local Climate Survey

STANDARD MET

Cover Sheet

Academic Update

Section: II. Information/Discussion Items
Item: C. Academic Update
Purpose: FYI
Submitted by:
Related Material: II C Academic Updates.pdf



Board Agenda Item #	Agenda II C Information Item
Date:	December 15, 2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Erdinc Acar, Chief Academic Officer
RE:	Academic Department Updates

Proposed Board Motion

FYI

Background and Introduction

MPS Chief Academic Officer will update the committee members on school events and activities as well as respond to requests from the MPS board members.

Budget Implications

None

Exhibits (attachments):

- MPS Academic Department Updates presentation

ACADEMIC DEPARTMENT UPDATES



BOARD ACADEMIC COMMITTEE MEETING

December 10, 2019



2019-2020 GOAL

<p>1</p>  <p>100% Four-Year cohort graduation rate and 100% UC/CSU A-G course completion rate across all MPS.</p>	<p>2</p> <p>All student groups across MPS will show growth on the CAASPP-ELA/Literacy and Mathematics assessments by a 3-point or more increase from the prior year as measured by the C.A. School Dashboard.</p>  <p>3</p> <p>50% or more of all MPS students will be proficient on the CAASPP-ELA/Literacy assessments and 35% or more will be proficient on the CAASPP-Mathematics assessments, with the ultimate goal of 100% proficiency for all.</p>
<p>4</p> <p>60% or more of all students will meet their growth targets on the MAP-Reading and Mathematics assessments, with the ultimate goal of 100%.</p> 	<p>6</p> <p>All MPS sites will organize a STEAM Festival/EXPO, with 100% of MPS students creating and demonstrating a STEAM focused project, experiment, model or demo.</p>
<p>5</p>  <p>All students across MPS will meet their expected growth targets in Reading as measured by the Lexile metrics.</p> <p>7</p> <p>Average Daily Attendance (ADA) rate of 97% or more across all MPS, with the ultimate goal of 100% ADA Rate.</p> 	<p>8</p> <p>MPS will develop, align, and improve academic and behavioral resources, programs, supports, and services in addressing the needs of the whole child by utilizing a coherent MTSS framework that engages all systems leading to improved student outcomes.</p> <p>9</p> <p>25% or more of all MPS students will be home-visited by the teachers and staff across all MPS.</p> 
<p>10</p> <p>School experience survey participation and satisfaction rates of 85% or more for students, parents, teachers, and staff, with the ultimate goal of 100% participation and satisfaction rates.</p>	



Board Requests and Discussion

1. MPS Special Education Related Services and Counts
2. Magnolia Science Academy 4 – LAUSD Academic benchmarks for renewal
3. Magnolia Science Academy 7 – LAUSD Academic benchmarks for renewal



Upcoming Events

- December 15 School Goals Presentation
- Winter MAP testing for selected schools
- School Leadership Transitions
- Finishing college and FAFSA applications
- Authorizers Visits/DVR Visit
- Spring Practitioner's Symposium – March 6
- PSAT/SAT School Day Exams
- 2019 CA STEAM Symposium – Anaheim, Dec 9-10, 2019 – MPS Students presenting
- 2020 CCSA Conference – Long Beach, March 16-19, 2020
- 2020 MPS STEAM EXPO Long Beach – Saturday, April 25, 2020

Cover Sheet

Accountability Items (SARC and LCAP)

Section: II. Information/Discussion Items
Item: D. Accountability Items (SARC and LCAP)
Purpose: FYI
Submitted by:
Related Material: II D Accountability Items.pdf



Board Agenda Item #	II D Information Item
Date:	December 15, 2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	David Yilmaz, Chief Accountability Officer
RE:	Upcoming Accountability Items

Proposed Board Recommendation

N/A

Background

Upcoming Accountability Items for the Board

The following are some of the high-stakes accountability items that will be brought before the board for information or approval.

- **Approval of School Accountability Report Cards (SARC) for all MPS (JANUARY)**

Our school leadership teams will be working on their SARC in December/January and will bring it to the board for approval in January. SARC needs to be approved by the board annually by February 1 and posted on each school's website.

- **MPS Stakeholder Survey Results & Reflections and Public Feedback to Inform LCAP (MARCH/APRIL)**

Our typical timeline for stakeholder survey implementation is January through mid-February, with the intent to receive results by the end of February so that we can analyze the results in March to inform our LCAP and budget development.

- **Approval of Local Control and Accountability Plans (LCAP) for all MPS (JUNE)**

The CDE will provide a new template for the 2020-23 LCAP. With the school leadership teams, we will be working on expanding our LCAP Actions to better align the LCAP with the MPS academic programs. School leadership teams will be trained on the new LCAP template. All the data and stakeholder sessions we hold (CA

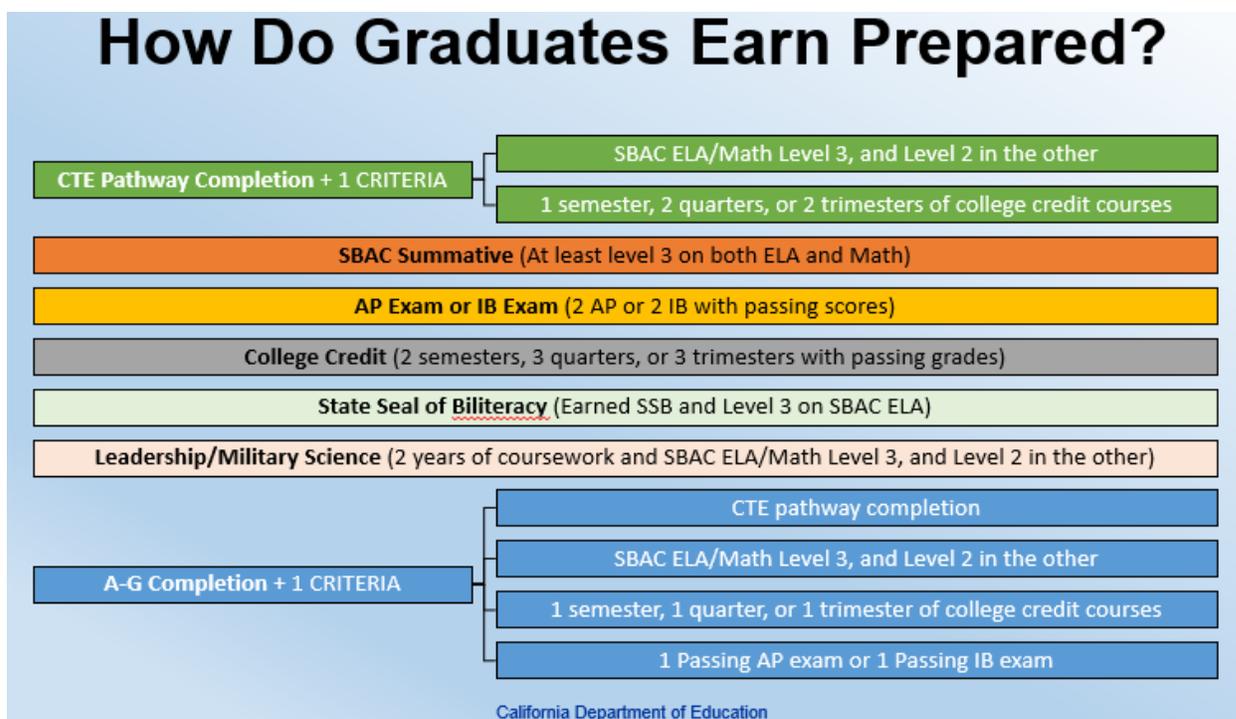
School Dashboard results, stakeholder surveys, 10 school goals progress meetings, our interim assessments, etc.) are used by the schools to inform their LCAP.

▪ **Approval of Student/Parent Handbook** (JUNE)

This is a routine annual item. Major changes considered for the upcoming handbook include the PE requirement clarification and revisions to the diploma type requirements.

PE Course Requirement will be detailed to state, *“Two years of PE is required. One year of approved Dance, Sports or Marching Band can be used to meet one year of the requirement. Junior Reserve Officers’ Training Corps (JROTC)/Cadet Corps and CIF Sports can be used to meet one or both years of the requirement.”*

We are working with the college counselors, deans and principals on updating our diploma types to reflect the criteria of the “College/Career Readiness Indicator” (CCI) on the CA School Dashboard. The following are the eligibility options for a student to be considered College/Career “Prepared” or “Approaching Prepared” on the CCI.



How Do Graduates Earn Approaching Prepared?

CTE Pathway Completion
SBAC Summative (At least level 2 on both ELA and Math)
College Credit (1 semesters, 2 quarter, or 2 trimesters with passing grades)
Leadership/Military Science (2 years of coursework)
A-G Completion

The Advanced and Honors diploma types which we developed many years ago already include some of the criteria above. Our work will be around refining and better aligning our diploma criteria to the CCI so that a student considered “Prepared” by the CDE should be receiving an Advanced or Honors diploma. This change will also help to increase our schools’ performance on the CCI. Please refer to the CA School Dashboard agenda item for MPS’ performance on the CCI. We plan to bring recommended changes to the Academic Committee at one of the next meetings before board approval in June.

Budget Implications

N/A

How Does This Action Relate/Affect/Benefit All MSAs?

N/A

Name of Staff Originator:

David Yilmaz, Chief Accountability Officer

Exhibits (Attachments):

N/A

Cover Sheet

Discussion of MSA- Santa Ana 2018-19 Audit Finding Action Plan

Section: II. Information/Discussion Items
Item: E. Discussion of MSA- Santa Ana 2018-19 Audit Finding Action Plan
Purpose: Discuss
Submitted by:
Related Material: II E MSA-SA Audit Finding.pdf
MSA SD Draft 12.15.19.pdf



Board Agenda Item #	II E – Information Item
Date:	12-15-19
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Finance Officer and Karl Yoder, DMS
RE:	MSA – Santa Ana 2018-19 Audit Finding

Proposed Board Recommendation

No action required – information item only.

Background

Depreciation is a method of allocating the cost of facilities and other capital assets over the useful life of the asset. While it is not a cash expense that is paid out to a third party, it is a required component of the organization's financial statements and must be calculated on at least an annual basis and shown as an expenditure on the School's Statement of Activities (aka income statement). For the 2018-19 year, the amount of depreciation expense for MSA-Santa Ana was understated by \$362k in the Unaudited Actuals report prepared by DMS (actual depreciation was \$561k). This error was identified by DMS during the audit process and brought to the auditor's attention on October 16, 2019. Due to the amount of this variance between the Unaudited Actuals and the final audited totals, this became an audit finding.

To strengthen and improve this and related financial controls, a Corrective Action Plan is proposed, containing the following new/additional controls to prevent recurrence of this or related deficiencies.

Corrective Action Plan key steps:

1. Implement monthly calculation and posting of depreciation expense for all MERF entities.
2. Implement new all-hands fixed asset register review session prior to July Budget, 1st and 2nd Interim, and Unaudited Actuals, attended by MPS Finance and DMS Finance staff members, to explicitly review, discuss and sign off on current fixed asset register line item components (including depreciation for each asset) as part of overall budget/actuals review process
3. Increase frequency of all-hands meetings to semi-monthly, and include specific discussion of fixed assets, intra-organizational loans, bond issues, facilities projects, and accrual balances to ensure ongoing compliance.

Budget Implications

No budget impact. Depreciation expense in 2019-20 as shown in First Interim Budget is correct.

How Does This Action Relate/Affect/Benefit All MSAs?

Improved internal controls benefit entire MERF organization going forward.

Name of Staff Originator: Nanie Montijo, CFO and Karl Yoder, DMS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

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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 Magnolia Science Academy San Diego (MSA San Diego) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 San Diego'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 San Diego's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA San Diego, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA San Diego's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control over financial reporting and compliance.



Rancho Cucamonga, California
December 15, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 235,322	\$ 657,784
Accounts receivable	133,499	271,945
Intercompany receivable	116,401	-
Prepaid expenses and other current assets	291	128,519
Total Current Assets	<u>485,513</u>	<u>1,058,248</u>
Non-Current Assets		
Investments in LLC	198,191	198,191
Restricted cash	106,607	106,607
Property and equipment	667,450	667,450
Less: accumulated depreciation	<u>(387,776)</u>	<u>(372,561)</u>
Total Non-Current Assets	<u>584,472</u>	<u>599,687</u>
Total Assets	<u>\$ 1,069,985</u>	<u>\$ 1,657,935</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 386,200	\$ 137,405
Intercompany payable	<u>223,766</u>	<u>215,638</u>
Total Current Liabilities	<u>609,966</u>	<u>353,043</u>
Long-Term Obligations		
Non-current portion of long-term obligation	<u>151,806</u>	<u>151,806</u>
Total Liabilities	<u>761,772</u>	<u>504,849</u>
Net Assets		
Without donor restrictions		
Designated	237,447	349,323
Unrestricted	<u>70,766</u>	<u>803,763</u>
Total Net Assets	<u>308,213</u>	<u>1,153,086</u>
Total Liabilities and Net Assets	<u>\$ 1,069,985</u>	<u>\$ 1,657,935</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 2,946,503	\$ 2,947,210
Federal revenue	107,361	117,595
State revenue	544,317	788,908
Local revenue	93,070	99,365
Total Revenues	<u>3,691,251</u>	<u>3,953,078</u>
Expenses		
Program services	2,738,687	2,173,624
Management and general	1,797,437	1,875,054
Total Expenses	<u>4,536,124</u>	<u>4,048,678</u>
Change in Net Assets	(844,873)	(95,600)
Net Assets, Beginning of Year	<u>1,153,086</u>	<u>1,248,686</u>
Net Assets, End of Year	<u>\$ 308,213</u>	<u>\$ 1,153,086</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (844,873)	\$ (95,600)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	15,216	30,567
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	138,446	(21,283)
(Increase) in intercompany receivable	(116,401)	11,025
Decrease in prepaid expenses	128,228	117,518
(Decrease) in security deposits	-	25,000
Increase in accounts payable	248,795	976
(Decrease) in intercompany payable	8,127	185,876
Net Cash Provided (Used) by Operating Activities	<u>(422,462)</u>	<u>254,079</u>
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(198,191)
Capital expenditures	-	(18,165)
Net Cash Used by Investing Activities	<u>-</u>	<u>(216,356)</u>
Net Decrease in Cash	(422,462)	37,723
Cash, Beginning of Year	657,784	620,061
Cash, End of Year	<u>\$ 235,322</u>	<u>\$ 657,784</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 SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 1,570,424	\$ 366,001	\$ 1,936,425
Employee benefits	272,446	-	272,446
Payroll taxes	538,852	87,532	626,384
Total Personnel	<u>2,381,722</u>	<u>453,533</u>	<u>2,835,255</u>
Operating			
Fees for services	-	51,209	51,209
Advertising and promotions	-	4,798	4,798
Office expenses	15,897	10,098	25,995
Information technology	5,511	-	5,511
Occupancy	-	819,818	819,818
Travel	-	7,794	7,794
Conferences and meeting	-	4,179	4,179
Depreciation	15,216	-	15,216
Insurance	-	20,103	20,103
Other expenses	105,272	24,813	130,085
Capital outlay	66,860	-	66,860
Special Education Local Plan Area fees	60,655	-	60,655
Instructional materials	52,691	-	52,691
Nutrition	3,667	-	3,667
District oversight fees	31,196	-	31,196
Management fees	-	401,092	401,092
Total Operating	<u>356,965</u>	<u>1,343,904</u>	<u>1,700,869</u>
Total Functional Expenses	<u>\$ 2,738,687</u>	<u>\$ 1,797,437</u>	<u>\$ 4,536,124</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (MSA San Diego) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 404 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

MSA San Diego is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA San Diego's Charter School Management Organization (CMO) that manages MSA San Diego's nonacademic operation such as financial, general administration, and human resource management. MSA San Diego'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 San Diego, LLC

MERF formed the MPM San Diego, 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 Magnolia Science Academy San Diego (MSA-SD) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SD Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

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. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

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Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

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Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

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The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,248,686	\$ (1,248,686)	\$ -
Net assets without donor restrictions		1,248,686	1,248,686
Net assets, end of the year			
Unrestricted	\$ 1,153,086	\$ (1,153,086)	\$ -
Net assets without donor restrictions	-	1,153,086	1,153,086

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 152,872	\$ 198,166	\$ 595,726	\$ 1,262,083
Cash with San Diego County				
Investment Pool	82,450	N/A	62,058	N/A
	<u>\$ 235,322</u>	<u>\$ 198,166</u>	<u>\$ 657,784</u>	<u>\$ 1,262,083</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had \$195,401 and \$654,179 in excess of insured limits.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 235,322	\$ 657,784
Accounts receivable	133,499	271,945
Prepaid expenses and other assets	<u>291</u>	<u>128,519</u>
Financial Assets, at year end	<u>485,513</u>	<u>1,058,248</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(237,447)</u>	<u>(349,323)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 248,066</u></u>	<u><u>\$ 708,925</u></u>

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, 2019 and 2018, was comprised of the following:

	<u>2019</u>	<u>2018</u>
Current restricted cash	<u><u>\$ 106,607</u></u>	<u><u>\$ 106,607</u></u>

Restricted cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had \$0 and \$0, respectively, in excess of insured limits.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

Investment Type	2019	2018
	Reported Amount	Reported Amount
San Diego County Pooled Investment Funds	\$ 82,450	\$ 62,058

All assets have been valued using a market approach, with quoted market prices.

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. MSA San Diego 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. MSA San Diego manages its exposure to interest rate risk by investing in the County Pool.

Weighted Average Maturity

MSA San Diego monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
San Diego County Pooled Investment Funds	\$ 82,450	528	\$ 62,058	370

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MSA San Diego 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.

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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.

Uncategorized - Investments in the San Diego County Treasury Investment Pools are not measured using the input levels above because MSA San Diego's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

MSA San Diego's fair value measurements are as follows at June 30, 2019 and 2018:

Investment Type	2019		2018	
	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
San Diego County Pooled Investment Funds	\$ 82,450	\$ 82,450	\$ 62,058	\$ 62,058

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ -	\$ 158,421
Federal receivables	56,297	64,072
State receivables	77,202	39,073
Lottery	-	10,379
	<u>\$ 133,499</u>	<u>\$ 271,945</u>

NOTE 8 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2019 and 2018, MSA San Diego had an intercompany receivable balance of \$116,401 and \$0, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	<u>\$ 291</u>	<u>\$ 128,519</u>

NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 410,868	\$ 410,868
Work in progress	<u>256,582</u>	<u>256,582</u>
Subtotal	667,450	667,450
Less: accumulated depreciation	<u>(387,776)</u>	<u>(372,561)</u>
Total property and equipment	<u>\$ 279,674</u>	<u>\$ 294,889</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 250,979	\$ 45,626
Vendor payable	135,221	87,373
Due to other agencies	-	4,406
	<u>\$ 386,200</u>	<u>\$ 137,405</u>

NOTE 12 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2019 and 2018, MSA San Diego had an intercompany payable balance of \$223,766 and \$215,638, respectively, from the Foundation.

NOTE 13 - LONG-TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA San Diego by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a (0.33) Debt Service Coverage Ratio and did not meet compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage	
Net Income	\$ (844,873)
Depreciation	15,216
Rent	473,760
Management Fees (50%)	200,546
Income Available for Coverage	(155,351)
Debt Service	473,760
Debt Service Coverage	(0.33)
Limit	1.10
Compliance	No

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The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA San Diego had 51 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand	
Total Expenses	\$ 1,700,869
Depreciation	15,216
Cash Expenses	1,685,653
Expense/Day	4,618
Cash	235,322
Days Cash on Hand	51
Limit	45
Compliance	Yes

Charter School Facilities Program

MSA San Diego 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 MSA San Diego's State School Fund Apportionments. The outstanding loan balance as of June 30, 2019 and 2018, was \$151,806 and \$151,806, respectively.

NOTE 14 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 237,447	\$ 349,323
Unrestricted	70,766	803,763
Total Net Assets without Donor Restrictions	<u>\$ 308,213</u>	<u>\$ 1,153,086</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 15 - FACILITIES USE AGREEMENT

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with San Diego Unified School District (SDUSD) for the sole purpose of operating MSA San Diego education programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019, was \$721,589.

NOTE 16 - RELATED PARTY TRANSACTIONS

MSA San Diego is part of the Foundation. MSA San Diego 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, 2019 and 2018, is \$401,092 and \$324,470, respectively.

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 MSA San Diego chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA San Diego 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

MSA San Diego 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

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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.

MSA San Diego 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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA San Diego's total contributions were \$240,780 and \$201,763, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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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. MSA San Diego 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, 2019 and 2018, are presented above and the total Charter School contributions were \$64,037 and \$28,775, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$235,821 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$13,108 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 18 - CONTINGENCIES**Grants**

MSA San Diego 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time." Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA San Diego is not currently a party to any legal proceedings.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 19 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA San Diego 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 MSA San Diego and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA San Diego 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 MSA San Diego are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA San Diego made payments of \$38,077 and \$43,695, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA San Diego had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 20 - SUBSEQUENT EVENTS

MSA San Diego's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through December 15, 2019, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy San Diego (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District. MSA San Diego operates one school, grades six through eight.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Regular ADA	<u>386.25</u>	<u>383.65</u>
Classroom based ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Classroom based ADA	<u>386.25</u>	<u>383.65</u>

MSA San Diego operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	59,826	178	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,826	178	N/A	Complied
Grade 8		59,826	178	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 342,662
Increase (Decrease) in:	
Cash and cash equivalents	(106,607)
Intercompany receivable	116,401
Prepaid expenses and other current assets	8,816
Restricted cash	106,607
(Increase) Decrease in:	
Accounts payable	64,100
Intercompany payable	<u>(223,766)</u>
Net Assets, June 30, 2019,	
Audited Financial Statement	<u><u>\$ 308,213</u></u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 MSA San Diego. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA San Diego and whether MSA San Diego complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2019.

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 MSA San Diego'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 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*.

We noted certain matters that we reported to management of MSA San Diego in a separate letter dated December 15, 2019.

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

A handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California
December 15, 2019

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's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2018-2019 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 San Diego's State government programs as noted below for the year ended June 30, 2019.

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 San Diego'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 *2018-2019 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 San Diego'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 San Diego's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA San Diego 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA San Diego'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 does not operate a before or after school program within the After/Before 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.

ADA was below the threshold required for testing; 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 15, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Governing Board
Magnolia Science Academy San Diego
San Diego, California

In planning and performing our audit of the financial statements of Magnolia Science Academy San Diego (MSA San Diego) for the year ended June 30, 2019, 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 December 15, 2019, on the government-wide financial statements of MSA San Diego.

Debt covenant

Observation

During the audit it was noted that the Magnolia Science Academy San Diego did not meet the Debt Service Coverage Ratio of 1.10 to 1, in accordance with debt covenant agreements for the California School Finance Authority Charter School Revenue Bonds Draw Down Series 2017A.

Recommendation

Magnolia Education Research Foundation (MERF) is required to retain an Independent Consultant to submit a written report and make recommendations within 45 days of being retained (a copy of such report and recommendations shall be filed with the Bondholder Representative and the Bond Trustee) with respect to increasing income of any School, decreasing Operating Expenses or other financial matters of any School which are relevant to increasing the Debt Service Coverage Ratio to at least the required level. MERF agrees that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, it shall consider revising its methods of operation and taking such other actions to comply with any reasonable recommendation of the Independent Consultant identified in the report of the Independent Consultant. Within 5 Business Days of receipt of the certificate to be delivered under this Coverage Ratio Covenant, the Bond Trustee is required to notify Registered Owners of the Obligations Outstanding of the Debt Service Coverage Ratio if the Debt Service Coverage Ratio of any School is below 1.00 to 1. So long as the Debt Service Coverage Ratio is not below 1.00 to 1, and so long as MERF shall retain an Independent Consultant and complies with such Independent Consultant's reasonable recommendations (subject to applicable requirements or restrictions imposed by law), no default or Event of Default shall be declared solely by reason of a violation of the requirements of this Coverage Ratio Covenant. Notwithstanding the foregoing provisions in this Section, the failure of any School to have a Debt Service Coverage Ratio of at least 1.00 to 1 for any Fiscal Year ending June 30, 2017 or after shall be an Event of Default under the Master Indenture.

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

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 15, 2019

Cover Sheet

Approval of Computer Teacher Position at Magnolia Science Academy-7

Section: IV. Action Items
Item: A. Approval of Computer Teacher Position at Magnolia Science Academy-7
Purpose: Vote
Submitted by:
Related Material: IV A MSA- 7 Computer Teacher.pdf



Board Agenda Item #	IV A – Action Item
Date:	12/15/2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Meagan Wittek, Principal MSA7
RE:	Approval of additional teaching position, Computer Teacher

Proposed Board Motion

I move that the board approves to add an additional teaching position at MSA7:

- Approval of adding one (1) full-time Computer Teacher position.

Background

MSA-7 currently has a full-time position of a Computer Lab Aide who also serves as our Testing Coordinator and IT support. The staff member in this position leads weekly computer classes for all students under the supervision of the credentialed classroom teacher and assists the Vice Principal with the various testing schedules and administrations, and provides basic IT support to the school.

It is being requested to transition this position and staff member into a full-time computer teacher position. The Computer Lab Aide position will not be replaced as it will no longer be needed.

The reasons for this request are as follows:

- To allow for professional growth of the staff member in order to keep up with the latest content of computer science and teaching strategies to further the computer literacy development of our students
- To have a credentialed teacher instructing the classes, allowing for the classroom teachers to use the time for planning and preparation for Guided Math stations and ELD blocks
- To have more on-site IT support
- To take on more responsibility as Testing Coordinator, allowing the Vice Principal more time to focus on classroom instruction, teacher development, and data analysis, resulting in higher student success

Budget Implications (CFO REVIEWED AND APPROVED)

- As the full-time Computer Lab Aide, this employee is currently paid \$25.48 an hour for 1,800 budgeted hours. Her offered salary is \$45,864.00 gross plus the benefits around \$13,700 which makes \$59,384 per year.
- As a full-time Computer Teacher, this employee's pay would be, based on the MPS pay scale:
 - \$50,000 base
 - 9 years MPS experience = \$9,135.00
 - Total Gross Salary = \$59,135.00
 - Benefits = Approximately \$10,000.00
 - Total per year: \$69,135

- This would be a budget impact of \$69,135 minus \$59,384=\$9,751 per year.
- The net effect for the remaining part of the Fiscal Year 2019-20 is approximately half of this amount, which is \$4,875.5
- **Suggested Source of Funding:**
 - A part-time IT position was originally budgeted for the 2019-20 school year and remains unfilled. The position is currently budgeted for \$25,000.00. This funding will be used to cover the additional salary amount for the Computer Teacher position and would result in no projected net loss for the fiscal year.

Cover Sheet

Approval of DirectEd Contract for Magnolia Science Academy-7

Section: IV. Action Items
Item: B. Approval of DirectEd Contract for Magnolia Science Academy-7
Purpose: Vote
Submitted by:
Related Material: IV B DirectEd Conflict of Interest.pdf



Board Agenda Item #:	IV B- Action Item
Date:	December 15, 2019
To:	Magnolia Public Schools – Board of Directors
From:	Alfredo Rubalcava, CEO and Superintendent
Staff Lead:	Erdinc Acar, Chief Academic Officer
RE:	Disclosure of Potential Conflict of Interest for MSA-7 and Approval of Contract

Recommended Motion:

Magnolia Educational & Research Foundation dba Magnolia Public Schools (“MPS”) Staff recommends that the MPS Board of Directors approve a contract between MSA-7 and DirectEd, an independent vendor. The contract may involve a conflict of interest due to the fact that the MSA-7 Principal, Meagan Wittek, is the spouse of an employee at DirectEd. After full disclosure of the conflict and consideration of all the facts, MPS Staff recommends that the MPS Board approve the DirectEd contract as being in the best interests of MPS and MSA-7.

Background

On May 1, 2019 MPS solicited proposals to establish a contract through competitive negotiations for the purpose of entering into a contract with a qualified vendor to provide special education and related services in grades TK-12 for all MPS Schools. After the qualification process, MPS engaged in a service agreement with Edlogical Group with the MPS Board’s approval on June 13, 2019.

In November 2019, Edlogical informed the MSA-7 school team that they could no longer provide the services due to a capacity issue.

MSA-7 and the MPS home office team identified DirectEd Services as the next qualified service provider. DirectEd also has a service agreement with MPS and has been also serving other MPS schools in various capacities including providing qualified substitute teachers, staff personnel

and professionals in the area of Special Education to provide services to on a temporary and/or long-term basis.

Potential Conflict of Interest

The potential conflict of interest involves MSA-7 Principal Meagan Wittek and her husband who works for DirectEd in the substitute teacher services department. To prevent any actual or perceived conflicts, MSA-7 has not been receiving any substitute teacher services from DirectEd. MSA-7 will continue not receiving the substitute teacher services or any services where Mrs. Wittek's husband is directly involved. MSA-7 is interested in receiving SPED related services specifically in the form of Speech Language Pathologists (SLP) and Speech Language Pathologist Assistants (SLPA).

MPS Conflict of Interest Policy

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. Accordingly, MPS has adopted a Conflict of interest Code designating positions and establishing disclosure categories. The "Principal" position falls under two of those categories. A copy of the conflict of interest policy is attached to this report.

MPS is committed to transparency and avoiding any actual or perceived conflicts of interest. Therefore, to mitigate the conflict, MSA-7 Vice Principal Mr. Yoon is designated to deal with any and all DirectED related service including the addition and deletion of services. Further, Mr. Yoon will consult with MPS Home office SPED Director Dr. Artis Callaham to manage all services.

Budget Impact

None

Attachment(s)

- 1- DirectED Service Agreement
- 2- MPS Conflict of Interest Code



DirectEd Service Agreement

This Service Agreement (this "Agreement") is made and entered into as of July 1, 2019, by and between New Mediscan II, LLC, doing business as DirectEd Educational Services ("DE") and Magnolia Public Schools ("Client"), located at **(See Exhibit C)**, with reference to the following:

RECITALS

Client wishes to retain qualified substitute teachers, staff personnel and professionals in the area of Special Education to provide services to Client on a temporary and/or long-term basis. DE has the ability to provide qualified temporary and long-term professionals to Client. Client wishes to engage DE to provide these services. Accordingly, the parties agree as follows:

AGREEMENT

DE's Duties and Responsibilities

1. DE will:
 - 1.1 Recruit, screen, interview, train and assign its employed service providers ("Employee") to perform the work described on Exhibit A under Client's supervision at the location specified above;
 - 1.2 Pay Employees' wages and provide them with the benefits offered by DE;
 - 1.3 Pay, withhold, and transmit payroll taxes; provide unemployment insurance; and handle unemployment and Workers' Compensation claims involving Employees. During the term of this Agreement, DE will maintain Workers' Compensation insurance at levels established by applicable state, automobile liability insurance with limits of \$1,000,000 and general liability insurance with limits of \$1,000,000 (individual) and \$3,000,000 (aggregate). Said general liability coverage shall include claims for sexual abuse and molestation. DirectEd shall furnish, at Client's request, a certificate of insurance evidencing such coverage.
 - 1.4 Perform all required background and qualification checks in accordance with Exhibit B of this Agreement;
 - 1.5 Inform Client in the event any Employee becomes non-compliant with any requirement in accordance with Exhibit B of this Agreement;
 - 1.6 Comply with all applicable federal, state and local laws, ordinances and regulations relating to this Agreement and to Employees; and
 - 1.7 Comply with the Family Educational Rights and Privacy Act (FERPA).

Client's Duties and Responsibilities

2. Client will:
 - 2.1 Properly supervise Employees and be responsible for Client's business operations, services, and confidential information;

- 2.2 Properly supervise, control, and safeguard Client's premises, processes and/or systems, and not permit Employees to operate any vehicle, or entrust them with unattended premises, cash, confidential or trade secret information, or other valuables without DE's prior written approval or as strictly required by the job description provided to DE;
- 2.3 Provide Employees with a safe work site, appropriate information, space to conduct their work and abide by all CalOSHA, standards, policies and procedures;
- 2.4 Immediately notify DE in the event an Employee is not meeting expectations, compromises student safety, or acts inappropriately or in violation of Client or DE policy, or with any other concern;
- 2.5 Comply with all applicable federal, state and local laws, ordinances and regulations relating to this Agreement;
- 2.6 Provide Employees with on-site parking. The Client agrees to be billed for and pay to DE any charges incurred if Employees are required to pay for parking.

Payment Terms, Bill Rates, and Fees

3. Client will pay DE for DE's services at the rate(s) stated on Exhibit A, and will also pay any additional costs or fees incurred by DE or its Employees in providing the services described herein. The rates and terms in Exhibit A shall be updated every July 1st and may reflect increases or decreases in rates. Client will receive a notice of these updates at least 30 days prior to July 1st. Fees are due and payable to DE within forty (40) calendar days of the date of the invoice. Invoices are dated using the last billing date of the invoice cycle.

In the event any invoice is not paid within 40 days of the invoice date, Client shall pay to DE a delinquency charge computed on Client outstanding balance as of the date of each invoice equal to one and one half percent per month from the date of each invoice, together with collection costs and fees, including attorneys' fees incurred in connection with collection of such amounts or ensuing arbitration and/or litigation, until each such invoice and all delinquency and attorneys' fees and costs are paid in full. The delinquency charge shall not exceed the maximum amount permitted by law. Late payment may also result in suspension of DE's services under this Agreement. If a portion of any invoice is disputed, Client agrees to promptly pay the undisputed portion by the invoice due date. Client has 40 days from invoice issuance to dispute, in writing, any portion of an invoice. Failure to do so in this time period, forfeits the Client's right to dispute.

- 3.1 Substitute Services will be billed weekly. Invoices will include the date of service, the employee who provided services, the bill rate, and the total costs. Sign in/out sheets and timesheets are not submitted with invoices and should be maintained by Client, if needed. Invoices will be separated by school site. DE will invoice Client for services provided under this Agreement every week for services provided the previous workweek. The DE workweek starts every Sunday and ends the following Saturday.
- 3.2 If Client uses Special Education Services, it will have the option to be billed monthly or weekly. Invoices will include the date of service, the type of service provided the employee who provided services, the bill rate, the total time worked and the total cost. Sign in/out sheets and timesheets are not submitted with invoices and should be maintained by Client, if needed. Invoices will be separated by school site. For weekly billing, DE will invoice Client for services provided under this Agreement every week for services provided the previous workweek. The DE workweek starts every Sunday and ends the following Saturday. For monthly billing, DE will invoice Client for services provided under this Agreement by the

15th of every month for the prior month's services. If Client does not provide a billing preference, weekly billing will be the default.

Hiring of DE Substitute Department Staff

- 3.3 Client recognizes and acknowledges that DE spends considerable time and effort and incurs substantial expense in recruiting, employing, training and retaining qualified staff. DE recognizes that its staff pool hopes to gain permanent employment with DE's clients and DE supports the long-term goals of its staff. DE has developed the following fee schedule in order to balance out the costs of recruiting, employing and retaining qualified staff with the long-term goals of its Employees.

Client shall immediately pay to DE the Placement Fee stated on Exhibit A for each Employee that (a) Client hires as its direct employee, independent contractor or sub-contractor, while employed by DE and/or within 90 days of the termination of such Employee's employment with DE or (b) Client causes, directly or indirectly, to leave the employment of DE.

Client must provide DE with 30 calendar days prior notice if they plan to offer a position to a DE Employee.

DE may, at its sole and absolute discretion, modify, waive or reduce the fee.

Hiring of DE Special Education Department Staff

- 3.4 Client recognizes and acknowledges that DE spends considerable time and effort and incurs substantial expense in recruiting, employing, training and retaining qualified staff. DE offers long-term careers to its special education staff and therefore hopes to retain them as long-term Employees. DE expends significant resources on each special education employee and must recuperate those costs if Client hires a DE special education employee.

Client shall immediately pay to DE the Placement Fee stated on Exhibit A for each special education employee that (a) Client hires as its direct employee, independent contractor or sub-contractor, while employed by DE and/or within 90 days of the termination of such employee's employment with DE or (b) Client causes, directly or indirectly, to leave the employment of DE.

Client must provide DE with 30 calendar days prior notice if they plan to offer a position to a DE special education employee.

DE may, at its sole and absolute discretion, modify, waive or reduce this fee.

DE Search Services

4. The following applies when Client wishes to engage DE for contingent search services.

DE's search services are furnished on a contingency basis and aside from the initial fee, fees are payable if Client engages the services of a candidate that has been referred to the Client, directly or indirectly, through DE's efforts. The fee is payable should Client or its affiliate engage such a candidate for any position within one year after DE's most recent communication relating to such candidate. Candidates are referred to Client in confidence. The candidate referrals and the methodologies DE uses to identify candidates constitute DE's confidential information and valuable trade secrets and are subject to the confidentiality obligations in this agreement. Should Client refer or otherwise identify such a candidate to another company, this constitutes a violation of Client's obligation to maintain the confidentiality of

our candidate referrals. If the other company hires the candidate, Client agrees to pay DE the quoted services fees. Invoices are due 40 calendar days after issuance. Initial fee payment is required before a Search is commenced.

When you engage DE in a search request, Client acknowledges and agrees that DE may place Client's name among a list of companies represented by DE in marketing and advertising materials used by DE, and that DE may use Client's name in conducting the search(es) requested by Client. DE may not otherwise use Client's name for marketing purposes without Client's permission. No representations or endorsements will be attributed to Client from including its name in such customer list.

Either party may terminate the search request without cause and upon 30 days written notice to the other party. Should the search be terminated at the Client's request without cause, they will forfeit the initial fee.

Breaks and Meal Periods

5. DE must comply with state and federal law requiring the payment of overtime. Also, DE must comply with mandatory break and lunch requirements as delineated in the applicable laws. Client shall authorize and permit non-exempt Employees to take a paid 10-minute break for every four (4) hours of work, or major fraction thereof. Non-exempt Employees shall also be entitled and encouraged to take an unpaid, duty-free 30-minute meal period for every work period of more than five (5) hours unless the assignment is less than six hours. For substitute teachers the second rest break may be provided after the last covered class if necessary. DE may adjust the start or end time of an assignment to accommodate for mandatory rest and meal breaks. Client will be notified if these adjustments will extend the workday beyond eight hours. Work days beyond eight hours will incur overtime charges for non-exempt employees. Client agrees to comply with all federal and state laws regarding start/stop times, meal periods and rest breaks, and shall indemnify, defend and hold DE harmless for the same.
6. DE will charge Client a fee for each occurrence where the Client fails to provide an uninterrupted duty-free rest break or uninterrupted duty-free meal break as required in Section 5. Further, Client shall be responsible for any and all penalties assessed against DE in connection with such violation of meal and rest break laws. See Exhibit A for fee schedule.
7. The failure to provide meal and rest breaks for non-exempt Employees may result in overtime charges if the hours worked exceed eight (8) hours in a workday. In the event any overtime hours are worked, Client will be charged and agrees to pay DE at the overtime rate. Client acknowledges and agrees that any requirement by Client for a DE Employee to arrive early or leave later than scheduled will also result in the Client being billed overtime for such time. See Exhibit A for fee schedule.

Confidential Information

8. The parties acknowledge they may receive information that is proprietary or confidential to the other party or to persons or entities affiliated with or engaged in providing services to the other party. The parties agree to hold such information in strict confidence and not disclose such information to third parties or use such information for any purpose other than performing their services for the other party pursuant to this Agreement.

Cooperation

- 9. The parties agree to cooperate fully and provide assistance to the other party in the investigation and resolution of any complaint, claim, action or proceeding that may be brought by or involve Employees in any way.

Indemnification and Limitation of Liability

- 10. DE shall indemnify Client, its subsidiaries, affiliated entities, directors, owners, agents, representatives, and employees, from and against all losses, liabilities, expenses, and claims for damages (including court costs and reasonable attorney’s fees) which may be asserted or claimed against Client as a result of any negligent act or error or omission directly caused by DE or its Employee(s), including without limitation any violation or breach of this Agreement.
- 11. Client shall indemnify DE, its subsidiaries, affiliated entities, directors, owners, agents, representatives, and employees, from and against all losses, liabilities, expenses, and claims for damages (including court costs and reasonable attorney’s fees) which may be asserted or claimed against DE as a result of any act or error or omission directly caused by Client, its employees or agents, including without limitation any violation or breach of this Agreement.

Term of Agreement

- 12. This Agreement shall begin on the date first written above and shall continue for a term of one year. This Agreement at the end of such term will be automatically renewed for successive one year periods unless terminated sooner. This Agreement may be terminated by either party on fifteen (15) days’ written notice, or at any time by mutual written agreement of the parties.
- 13. DE reserves the right to immediately terminate this Agreement in the event: (i) Client breaches any duty under this Agreement, including but not limited to the failure to timely pay any amounts due to DE; (ii) if required by law or regulation; or (iii) if Client becomes insolvent or commits any act of bankruptcy, or a petitioner for involuntary bankruptcy is filed against Client, or Client makes a general assignment for the benefit of creditors under the bankruptcy or insolvency laws.
- 14. On termination, DE shall have no further obligation to provide Client with Employee. The provisions regarding Confidential Information and Cooperation shall continue in effect subsequent to and regardless of termination of this Agreement.

Notices

- 15. Any notice, request, demand, consent, approval or other communication required or permitted under this Agreement must be in writing and will be deemed to have been given (a) on actual delivery, if delivery is by hand, or (b) on receipt if delivery is by facsimile, or (c) five (5) days after deposit in the U.S. mail, postage prepaid, certified or registered mail, return receipt requested. Each such notice shall be sent to the respective parties at the address indicated below. Any party may change its address for purposes of this Section by giving the other party written notice as provided in this Section.

To DE:

DirectEd

Attn: Contracts Dept.
21820 Burbank, Suite 310
Woodland Hills, CA 91367
Fax: 813-321-0420

To Client:

Magnolia Public Schools

Attn: Suat Acar
250 E. 1st Street, Suite 1500
Los Angeles, Ca, 90012
Fax: 714-362-9588

Nature of Relationship

16. The parties desire and intend and shall be deemed to be independent contractors, and not in any partnership, joint venture, principal-agent, fiduciary-beneficiary, employment, or other relationship. DE shall be solely responsible for all forms of compensation and benefits, if any, and all obligations of any kind or nature, including but not limited to taxes, insurance premiums, and withholdings from compensation to Employees, whether arising from negotiation or by law, of Employees placed with Client under this Agreement. DE shall complete and submit a Form W-9 to Client annually, as requested.

Additional Provisions

17. The provisions in this Agreement which by their nature survive the expiration or termination of this Agreement (including, but not limited to, the conversion of DE Employees to permanent employees of Client) shall continue in effect after expiration or termination until they have been fully performed or until by their nature they have expired.
18. No provision of this Agreement may be amended or waived unless agreed to in writing signed by each of the parties.
19. If any term, provision, covenant or condition of this Agreement shall be held by a court of competent jurisdiction to be invalid, void or unenforceable, in whole or in part, such decision shall not affect the validity of any remaining portion, and the remaining portion shall stand in full force and effect, and shall in no way be affected, impaired or invalidated. Any provision thus affected shall be modified to the extent necessary to bring the provision within the applicable requirements of the law.
20. This Agreement, including attached exhibit(s), constitutes the entire Agreement between the parties regarding its subject matter, and supersedes all prior agreements and understandings between the parties, whether oral or written, relating to its subject matter.
21. The provisions of this Agreement shall benefit and bind the parties and their respective heirs, representatives, successors, and assigns.
22. A party's delay or failure to enforce any one or more provisions of this Agreement on one or more occasions will not be a waiver of that or any other provision on any other occasion(s) or of the party's right thereafter to enforce each and every provision of this Agreement.
23. A party shall have no right or power to and shall not purport to transfer or assign this Agreement without prior written consent from the other party.
24. This Agreement shall be governed by the laws of the State of California. Any legal action arising from, involving or relating to this Agreement shall be brought in a court of competent jurisdiction located in Los Angeles, California.
25. **ARBITRATION OF DISPUTES:** The parties shall have all rights provided by the Federal Arbitration Act, and, if applicable, California law, to seek non-binding arbitration of any contractual dispute regarding this Agreement. In the event of any express or implied conflict between the Federal Arbitration Act and California law, the Federal Arbitration Act shall govern. To that end, no impediments to the invocation of this provision shall arise by virtue of any provision of California law which by its terms is focused upon the exercise of contractual dispute resolution procedures. The prevailing party in any such non-binding arbitration shall be awarded its reasonable costs and attorney's fees incurred in connection with the dispute. Such non-binding arbitration may be decided by a single neutral arbitrator under the auspices of the American Arbitration Association and that such arbitration be conducted in Los Angeles, California, with each side to advance one half of the arbitrator's estimated fee, pending the award of

costs therein. With respect to any effort to enforce the above-stated non-binding arbitration provision or any other controversy or claim arising out of or relating to this Agreement, each party hereto consents to the personal jurisdiction over such party of the Courts of the State of California and that venue is proper in Los Angeles County. In the event any action (arbitration and/or court proceeding) is brought by either party arising out of or concerning this Agreement, the prevailing party in such action shall be entitled to recover as an element of its cost of suit, and not as damages, reasonable attorney's fees to be fixed by the court or arbitration panel. "Prevailing party" shall be the party who is entitled to recover its cost of suit, whether or not the suit proceeds to final judgment. For purposes of clarity no issues of malpractice or negligence may be decided by arbitration.

The parties, intending to be legally bound, duly execute this Agreement as of the date stated above.

Magnolia Public Schools

Signature: Alfredo Rubalcava

Printed Name: Alfredo Rubalcava

Title: CEO & Superintenden

Date: 7/1/19

DirectEd Educational Services

Signature: Natoh Tucker

Printed Name: Natoh Tucker

Title: Director, Bus Admin

Date: Effective: 7-1-2019

Exhibit A

FEES FOR SUBSTITUTE TEACHERS & SCHOOL SUPPORT STAFF

Rates and Fees for Day-to-Day and Long Term Substitute Teacher Assignments ¹	Rates
Half Day ² – Fewer than 4 hours	\$150.00 per day
Full Day – 4.01 – 8.0 hours	\$245.00 per day
Half Day – Fewer than 4 hours – Assigned Long Term Sub (10+ school days)	\$145.00 per day
Full Day – 4.01 – 8.0 hours – Assigned Long Term Sub (10+ school days)	\$235.00 per day
Extended Day – 8.01 – 9.0 Hours	\$295.00 per day
Overtime Fee ³ , Weekend Assignments ⁴ and Failure to Provide Lunch or Rest Break ⁵	\$50.00 per hour/occurrence
No Notice Cancellation Fee ⁶	\$130.00 per occurrence
Rates and Fees for Long Term Substitute Teacher Assignments Requiring Lesson Planning or Grading ⁷	Daily Rate
Teacher with 30-day Sub Permit ⁸	\$365.00 per day
Credentialed Teacher Assignment ⁸⁺⁹	\$380.00 per day
Additional Duties Fee, Missed Prep Fee or Failure to Provide a Duty Free Lunch ¹⁰	\$50.00 per hour/occurrence
Lesson Planning for non-DirectEd Substitute Teacher ¹¹	\$50.00 a day
Rates and Fees for School Support Staff ¹²⁺¹³ (6 hour minimum)	Hourly Rate
Office Assistant	\$32.50 per hour
SpEd Aide or Teacher Assistant	\$32.50 per hour
Certified Nursing Assistant (CAN)	\$32.50 per hour
Licensed Vocational Nurse (LVN) – 4 hour minimum permitted	\$41.50 per hour
SpEd Aide – NCI Certified or QBS Trained	\$35.00 per hour
BII Substitute	\$36.50 per hour
BII Substitute – NCI Certified or QBS Trained	\$39.00 per hour
After-School Assignment (Any assignment that starts after 2:30pm. 3-hour minimum required.)	\$50.00 per hour
Overtime Fee ³ , Weekend Assignments ⁴ and Failure to Provide Lunch or Rest Break ⁵	\$50.00 per hour/occurrence
LVN Overtime Fee ³	\$65.00 per hour

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Initials

No Notice Cancellation Fee ⁶	\$130.00 per occurrence
Placement Fees for Substitute Teachers and School Support Staff	
1-90 assigned days at client site	\$3,500 flat rate fee
>90 assigned days at client site	\$1,500 flat rate fee

FEES FOR SPECIAL EDUCATION PROVIDERS, ASSESSORS AND CONSULTANTS

Special Education Provider Rates ¹⁵⁺¹⁶ (Minimum Visit Rates are for on-site visits. Off-site time is billed in 15 min. increments)	Hourly Rate	Minimum Billing Increments
Program Administrator	\$158.00	4 hours
Case Manager	\$109.50	4 hours
Resource Teacher (RST)	\$82.00	7 hours for direct services
School Psychologist	\$109.50	1 hour for IEPs, consult and on-site services
Academic Assessor	\$109.50	1 hour for IEPs, consult and on-site services
Deaf and Hard of Hearing (DHH)	\$122.00	1 hour for IEPs and consult; 3 hours for direct services
Augmentative and Alternative Communication Assessment (AAC)	\$115.00	1 hour for assessments; 3 hours for direct services
Assistive Tech Assessment	\$115.00	1 hour for assessments; 3 hours for direct services
Educational Audiologist	\$165.00	1 hour for IEPs, consult and on-site services
Credentialed School Nurse w/ Audiometrist Certificate (SN)	\$98.50	1 hour for IEPs, consult and on-site services
DIS Counselor	\$83.00	1 hour for IEPs and consult; 3 hours for direct services
Speech and Language Pathologist (SLP)	\$115.00	1 hour for IEPs and consult; 3 hours for direct services
Speech and Language Pathology Assistant (SLPA) Supervisor provided by DE and Client is not charged for supervision separately.	\$74.00	3 hours for direct services
Unsupervised Speech and Language Pathology Assistant (SLPA) Supervisor not provided by DE	\$67.00	3 hours for direct services
Occupational Therapist (OT)	\$115.00	1 hour for IEPs and consult; 3 hours for direct services
Certified Occupational Therapist Assistant (COTA) Supervisor provided by DE and Client is not charged for supervision separately.	\$74.00	3 hours for direct services
Unsupervised Certified Occupational Therapist Assistant (COTA) Supervisor not provided by DE	\$67.00	3 hours for direct services
Adapted Physical Education Teacher (APE)	\$96.00	1 hour for IEPs and consult; 3 hours for direct services
Behavior Intervention Development (BID)	\$109.50	1 hour for IEPs and consult; 2 hours for direct services
Educationally Related Intensive Counseling Services or Educationally Related Mental Health Services (ERICS or ERMHS)	\$109.50	1 hour for IEPs and consult; 3 hours for direct services
Behavior Intervention Implementation (BII)	\$36.50	6 hours

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Initials

Behavior Intervention Implementation (BII) – NCI Certified or QBS Trained	\$39.00	6 hours
Expert Consult	\$190.00	2 hours for on-site services; 15 mins for off-site meetings
Translation – Special Education Reports in Spanish	\$100.00	No minimum
Vision, Hearing or Scoliosis Screening or Lice Check (if fewer than 50 students, hourly School Nurse rate applies)	\$5.00	Per student / per screening
Overtime fee for SLPA, COTA and BII (non-exempt employees) ¹⁷	1.5 times	
Failure to Provide Lunch Break/ Rest Break ⁵ (non-exempt employee)	1 Hour	
Other Providers not listed in the agreement	Contact for quote	
Placement Fees for Special Education Providers and Assessors		
0-1,500 hours of service charged to the Client for that employee	\$15,000 flat fee	
>1,500 hours of service charged to the Client for that employee	\$3,500 flat fee	

SEARCH FEES

Description of Search Fees	Fee
Initial Fee – billed for each position requested by Client	\$500
Teacher and Counselors Final Fee	\$3,500
School Psychologist or School Administrator Final Fee	\$7,500
Other	Quoted

TRAINING FEES

Description of Fees	Fee
Training Services DE provides an array of training options. Call us and we will create a customized plan to address your needs.	Contact for quote

Exhibit A Notes:

1. The hours billed is based on the following calculation. DE will add 15 minutes to the start and 15 minutes to the end time of the Client's bell schedule. An additional 15 minutes may be added to the start of the workday, if a morning break is not included in the Client's bell schedule. Lunch is unpaid, so the duration of the lunch is deducted from the calculation.
2. For an assignment to qualify as a half day assignment the calculation of hours must include 15 minutes prior to the substitute's first class and 15 minutes after substitute's last class.
3. Employees will be paid overtime if they work more than 8 hours per day.
4. Any assignment that starts after 2:30pm or any assignment on a Saturday or Sunday is paid at this rate. A 3-hour minimum applies to these assignment types.
5. This fee applies when Client prohibits a non-exempt employee from taking their scheduled lunch and/or rest breaks

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Initials

6. Client may be charged if a confirmed assignment is cancelled once the employee is in route or has arrived at the assignment.
7. Teachers who are lesson planning shall verify their hours with the office manager or other designee on a weekly basis. Lesson planning rates go into effect anytime an assignment requires lesson planning or grading. Client will be billed retroactively, if applicable. Pupil Free Days and Professional Development Days will be billed at the lesson planning rate if the substitute is required to report to work on those days. If transition days are requested, they will be billed as an assignment not requiring lesson planning.
8. If a lesson planning substitute teacher is absent, the Client will be charged the lesson planning rate of that teacher when a DE substitute covers the assignment. This is to compensate the lesson planning stipend DE pays the Employee when absent.
9. This rate applies to teachers who are credentialed in the subjects they are teaching.
10. A Client administrator or administrative designee must approve all additional duties on the Employee's timecard. Additional duties include; office hours, detention coverage, Back-to-School Night, Parent Conferences, etc. Teachers who are lesson planning will be provided the standard preparation time and/or conference periods provided to other teachers at the Client's school site. They must also be provided with a duty-free 30 minute lunch. If neither of these are provided, additional duties fees will apply.
11. Fee applies when a DE employee is absent and creates lesson plans for a non-DE employee.
12. School support staff employees may not have a valid 30-Day Substitute Permit, are not allowed to supervise classrooms independently and should not be left alone with students for extended periods of time. Lunch is deducted from the calculation of hours and is therefore unpaid.
13. Client may not modify the confirmed hours of an assignment request once the Employee is in route to the assignment. Client shall immediately notify DE within 1 business day if Employee does not show up for a confirmed assignment. Client will be charged all confirmed amounts unless DE is notified of the Employee "No Show".
14. Client may be charged if a confirmed assignment is cancelled once the employee is in route or has arrived at the assignment.
15. Additional Terms for Special Education Providers Absent Students/Schedule Changes
 - a. BII Services- Client will be charged the minimum visit of six hours for these services if student is absent and DE is not provided email notice one business day in advance.
 - b. Direct Services- Client will be charged a one-hour service fee in the event that the scheduled student(s) is/are absent or if Client does not allow provider to provide services to students.
 - c. Client must provide at least one business day notice if there is a change in the Client or student's schedule that will impact the Employee's scheduled visit. Failure to notify DE will result in a charge of one hour for the service
16. Additional Terms for Assessment and Consultation Services
 - a. Client may be charged a one-hour service fee, if an IEP meeting is cancelled with less than 24 hours of notice. If a parent or guardian does not attend a scheduled IEP meeting, Client will still be charged a one-hour service fee.
 - b. When an assessment or student consultation is previously scheduled, Client will be charged a one-hour minimum visit if the student(s) is/are absent or if Client decides that the student(s) are not able to be pulled for assessment services. Client must provide at least 1 business day notice if there is a change in the Client or student's schedule that will impact the Employee's scheduled visit. Failure to notify DE will result in a charge of one hour for the service.
17. DE complies with California laws and codes and ensure that all non-exempt employees sent to the Client site are provided with the required number of breaks as prescribed by the law.

Exhibit B**Special Education Providers, Substitute Teachers and Support Staff
HEALTH SCREENING AND CREDENTIALING REQUIREMENTS**

1. DE employees must meet the requirements set forth below in accordance with the below tables based on the location of services being provided. Client agrees to not require the employee to provide any additional items other than those listed below. DE attests that for each of its respective employees they meet the minimum requirements and (a) they have completed all of the health and background screenings requirements below; (b) there has been no break in service greater than 180 days of such employees subsequent to conducting such health and background screenings; and (c) the results of those screenings has not shown any issues that would render such employee reasonably unacceptable to the Client or otherwise negatively impact the health or safety of any child.
2. Client understands and agrees that it will incur additional costs for any health screenings and/or credentialing requested that is not set forth in this Exhibit B. In addition, any requests by Client other than as set forth on Exhibit B must be agreed upon in writing before DE shall be required to provide any such additional health screenings and/or credentialing.
3. Items on this document cannot be waived or altered unless approved by the Director of Business Administration or the Executive Director of DirectEd Educational Services. Any item waived cannot be an item that places the employee in a non-compliant status per applicable laws and directives.

FOR SERVICES PROVIDED IN CALIFORNIA		
TYPE	FREQUENCY	DETAILS
TB Test	At hire, re-activation, and at expiration	Must be within past 60 days and expires 4 years after test results read
State of California License (RN, LVN, MFT SLP, SLPA, COTA, Health Aides, and CAN only)	At hire, re-activation, and at expiration	Unencumbered license – all flags or suspensions must be explained and evaluated by a Director prior to hire
Non-Violent Crisis Intervention Training (NCI only)	At hire, re-activation, and at expiration	Current and Valid
CTC Permit (30-day permitted substitute teachers only)	At hire, re-activation, and at expiration	Current and valid – all flags or suspensions must be explained and evaluated by a Director prior to hire

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Initials

CTC Credential (Credentialed teacher, SLP, School RN, APE, BID, DHH, OT, Counselor, School Psych, Case Manager, Program Admin only)	At hire, re-activation, and at expiration	Current and valid – all flags or suspensions must be explained and evaluated by a Director prior to hire
Transcripts (Office, Sped Aide, Teacher Assistant, BII and CPI/NCI only)	At hire, re-activation, and at expiration	Units earned meet or exceed state and district requirements
CPR License (RN, LVN and CAN Only)	At hire, re-activation, and at expiration	Current and Valid
Livescan Results (DOJ/FBI)	At hire or re-activation	Any convictions must be explained and evaluated for Ed Code compliance. If acceptable per Ed Code, evaluated by a Director before hire.

Exhibit C

Locations

Magnolia Science Academy 1- Reseda (6-12)

18238 Sherman Way
Reseda, CA 91335
(818) 609-0507

Magnolia Science Academy 2- Valley (6-12)

17125 Victory Blvd.
Lake Balboa, CA 91406
(818) 758-0300

Magnolia Science Academy 3- Carson (6-12)

1254 East Helmick Street
Carson, CA 90746
(310) 637-3806

Magnolia Science Academy 4- Venice (6-12)

11330 West Graham Place
Los Angeles, CA 90064
(310) 473-2464

Magnolia Science Academy 5- Los Lobos (6-8)

18230 Kittridge St.
Reseda, CA 91335
(818) 705-5676

Magnolia Science Academy 6- Palms (6-8)

3754 Dunn Dr.
Los Angeles, CA 90034
(310) 842-8555

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Initials

Magnolia Science Academy 7- Northridge (TK-5)

18355 Roscoe Blvd.
Northridge, CA 91325
(818) 886-0585

Magnolia Science Academy 8- Bell (6-8)

6411 Orchard Ave.
Bell, CA 90201
(323) 826-3925

Magnolia Science Academy- Santa Ana (TK-12)

2840 West 1st Street
Santa Ana, CA 92703
(714) 479-0115

Magnolia Science Academy-San Diego (6-8)

6525 Estrella Ave
San Diego, CA 92120
(619) 644-1300

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CONFLICT OF INTEREST CODE

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation (2 California Code of Regulations §18730) that contains the terms of a standard conflict of interest code, which can be incorporated by reference in an agency's code. After public notice and hearing, the standard code may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act. Therefore, the terms of 2 California Code of Regulations Section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. This regulation and the attached Appendices, designating positions and establishing disclosure categories, shall constitute the conflict of interest code for the **Magnolia Educational & Research Foundation. (MERF)**

Individuals holding designated positions shall file statements of economic interests with the **MERF**, which will make the statements available for public inspection and reproduction (Government Code § 81008). All statements will be retained by **MERF**.

**APPENDIX A
DESIGNATED POSITIONS**

<u>Designated Positions</u>	<u>Disclosure Category</u>
Members of the Governing Board	1, 2
Corporate Officers (e.g., CEO/President, CFO/Treasurer, Secretary)	1, 2
Chief External Officer	1, 2
Regional Director – South	1, 2
Regional Director – North	1, 2
Chief Operations Officer	1, 2
Chief Academic Officer	1, 2
Chief Accountability Officer	1, 2
Principals	3
Consultants/New Positions	*

*Consultants/New Positions shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation:

The CEO/President or designee may determine in writing that a particular consultant or new position, although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements in this section. Such written determination shall include a description of the consultant’s or new position’s duties and, based upon that description, a statement of the extent of disclosure requirements. The CEO/President or designee’s determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code (Government Code § 81008).

APPENDIX B DISCLOSURE CATEGORIES

Category 1

Designated positions assigned to this category must report:

- a. Interests in real property located in whole or in part within a two-mile radius of:
 - The Los Angeles Unified School District, the Santa Ana Unified School District, or the San Diego Unified School District, or
 - Any facility utilized by MERF's charter schools, or
 - A proposed site for a MERF facility.
- b. Investments and business positions in business entities, or sources of income (including gifts, loans, and travel payments) that engage in the purchase or sale of real property or are engaged in building construction or design.

Category 2

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by MERF.

Category 3

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by the designated position's department. For the purpose of this category a Principal's department is his/her entire school.

This is the last page of the conflict of interest code for **Magnolia Educational & Research Foundation**.



CERTIFICATION OF FPPC APPROVAL

Pursuant to Government Code Section 87303, the conflict of interest code for **Magnolia Educational & Research Foundation** was approved on 11/11 2017. This code will become effective on 12/1 2017.

A handwritten signature in blue ink, appearing to be "B. Lau", written over a horizontal line.

Brian G. Lau
Senior Commission Counsel
Fair Political Practices Commission

Cover Sheet

Approval of Independent Contractor Contract Extension- Noflin Enterprises

Section: IV. Action Items
Item: C. Approval of Independent Contractor Contract Extension- Noflin Enterprises
Purpose: Vote
Submitted by:
Related Material: IV C Noflin Contract Extension.pdf



Board Agenda Item #:	IV C – Action Item
Date:	December 15, 2019
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools (“ MPS ”) Board of Directors (the “ Board ”)
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Patrick Ontiveros, General Counsel & Director of Facilities
RE:	Extension of Independent Contractor Agreement for Facilities Projects

I. Proposed Recommendation

Staff recommends and moves that the Board approve an amendment to the Independent Contractor Agreement by and between MPS and Noflin Enterprises for two (2) more months, commencing December 24, 2019 and expiring on February 23, 2019 according to the terms and conditions set forth in this report and any attached exhibits.

II. Background

At the March 21, 2019 regular meeting of the Board, the Board approved the MPS Facilities Department to hire a full time employee on a six (6) month probationary basis to assist with facilities related matters. Such additional employee was needed in order to provide assistance to the Director of Facilities, the sole Facilities Department employee, to help close out bond financed capital projects, help complete Proposition 39 energy upgrade projects at various MPS campuses, and such other projects as may be needed. MPS Staff subsequently advertised the position and reviewed multiple applicants. None of the proposed applicants possessed sufficient experience to immediately make a contribution upon joining MPS. Consequently, in the 2019-20 fiscal year budget, the Facilities Department included a budget line item for an independent contractor.

Seeing the need for someone with experience to assist with facilities projects and understanding the time sensitive nature of such projects, then Board member Charlotte Brimmer offered to resign from the Board to work on such projects as an independent contractor under the supervision of the Director of Facilities.

December 15, 2019

Page 2 of 5



Noflin Enterprises, an affiliated company to Ms. Brimmer, and MPS signed an independent contractor agreement as of July 27, 2019. The term of the Agreement was for three months and expired on October 23, 2019. During that term Noflin undertook supervision of all Prop 39 energy upgrade projects, certain capital improvement projects at MSA-7, and dispute resolution with a neighbor to MSA-1. Noflin was paid a total of TWELVE THOUSAND AND NO /100 DOLLARS (\$12,000.00) for the three months.

Mutually satisfied with the results from the independent contractor arrangement and with MPS seeing a need for continued assistance, Noflin and MPS agreed to extend the term for another two months. MPS paid Noflin TWELVE THOUSAND TWO HUNDRED SIXTY SIX AND NO/100 DOLLARS (\$12,266.00) for the second two (2) months of the extended term. The extended term expires on December 24, 2019. During the extended term Noflin continued to supervise the Prop 39 projects and undertook to close out the MSA-San Diego project. The MSA-San Diego project was financed with the proceeds of the 2017 bond issuance and must be closed out with the Division of State Architect (“DSA”).

MPS Staff desires to further extend Noflin’s contract for another two (2) months at TWELVE THOUSAND TWO HUNDRED SIXTY SIX AND NO/100 DOLLARS (\$12,266.00) for said two (2) months in order to complete the close out of the MSA-San Diego project, to assist with certain matters at MSA-Santa Ana (the gym construction of which was financed by the 2017 bond), and to continue to supervise all Prop 39 projects. This second extension will put the dollar amount of the contract, as extended, over the threshold of TWENTY FIVE THOUSAND AND NO/100 DOLLARS (\$25,000.00) thus triggering the Board’s required approval.

The executed original agreement is attached as Exhibit A, the executed first amendment is attached as Exhibit B, and the proposed second amendment is attached as Exhibit C.

III. Budget Impacts

The 2019-20 Facilities Department budget included \$25,000 to pay for an independent contractor. The proposed extension of the Noflin contract will be paid from MERF’s long term reserves.

Attachments

Exhibits A, B and C



Exhibit A

Independent Contractor Agreement

FIRST AMENDMENT TO INDEPENDENT CONTRACTOR AGREEMENT

THIS SECOND AMENDMENT TO INDEPENDENT CONTRACTOR AGREEMENT (this “**First Amendment**”) is entered into as of December 24, 2019 (the “**Effective Date**”), by and between Magnolia Educational & Research Foundation dba Magnolia Public Schools (“**Client**”) and Noflin Enterprises (“**Independent Contractor**”). Client and Independent Contractor shall be referred to individually as a “**Party**” and together as the “**Parties.**”

RECITALS

A. The Parties entered into that certain Independent Contractor Agreement as of July 24, 2019 (the “**Original Agreement**”) for the Project (as defined in the Original Agreement”) pursuant to which Independent Contractor agreed to provide professional services to Client.

B. The Parties entered into that certain First Amendment to Independent Contractor Agreement as of October 24, 2019 (the “**First Amendment**”) to extend the Term of the Original Agreement and amend the scope of work.

C. The Term of the Original Agreement, as amended by the First Amendment ,expires as of December 23, 2019. The Original Agreement and the First Amendment are sometimes herein referred to together as the “**Agreement.**”

D. The Parties desire to amend the Agreement to extend the Term as of the Effective Date as set forth in this Second Amendment and amend the scope of work under the Agreement.

AGREEMENT

NOW, THEREFORE, in reliance on the preceding recitals, and in consideration of the promises, covenants and agreements set forth in the Agreement and this Second Amendment and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto hereby agree as follows:

1. Defined Terms. Initially capitalized terms used but not otherwise defined in this Second Amendment shall have the meanings assigned to such terms in the Agreement.

2. Recitals. The Parties acknowledge that the above recitals are true and correct and that the Agreement remains in full force and effect.

3. Amendments. The following Sections and/or subsections of the Agreement are amended as hereinafter set forth as of the date of this Second Amendment.

a. Section 1.2 (“Term”) is amended as follows to extend the duration of the Term:

The initial term of Independent Contractor’s engagement commenced as of July 25, 2019 and terminated as of October 23, 2019. The Independent Contractor’s engagement shall continue, subject to earlier termination or extension as provided below, until February 23, 2019.

b. Section 3.1 (“Calculation of Fee”) is amended as follows to increase the Fee for the extended duration of the Term:

As compensation for services rendered under this Agreement by Independent Contractor, Client shall pay Independent Contractor an amount not to exceed TWELVE THOUSAND FIVE HUNDRED AND NO/100 DOLLARS (\$12,500.00) for the first three (3) months and TWENTY FOUR THOUSAND FIVE HUNDRED THIRTY TWO AND NO/100 DOLLARS (\$24,532.00) for the second four (4) months of the Term.

c. The first sentence of Section 3.2 ("Payment Schedule") is amended as follows:

The Fee shall be paid in arrears as follows: in two (3) equal installments of FOUR THOUSAND ONE HUNDRED SIXTY SIX AND 67/100 DOLLARS (\$4,166.67) for the first three (3) months and in four (4) equal installments of SIX THOUSAND ONE HUNDRED THIRTY THREE AND NO/100 DOLLARS (\$6,133.00) for the second four (4) months, commencing on the thirtieth (30) day following the commencement date and every thirty (30) days thereafter.

d. Exhibits A and B are amended and restated as Exhibits A and B attached hereto.

4 Execution. This Second Amendment may be executed in multiple counterparts each of which shall be an original, but all of such counterparts shall constitute one such Second Amendment. Each Party shall be entitled to rely upon an electronically delivered counterpart of this Second Amendment executed by the other Party with the same force and effect as if such electronic copy were an ink-signed original signed by the party sending such electronic copy and delivered to the other party. For purposes of this Section, all references to the term "electronic copy" shall be deemed to include a document forwarded by telecopy transmission or a document forwarded by electronic mail as a Portable Document Format (Adobe Acrobat) (also known as a PDF) attachment to such electronic mail.

5. Conflict; Reaffirmation. Except as modified herein, all terms and provisions of the Agreement remain in full force and effect. If there is a conflict between the terms of the Agreement and the terms of this Second Amendment, the terms of this Second Amendment shall control. The Agreement, as amended hereby, is hereby affirmed, and the provisions thereof, as so amended, shall remain in full force and effect. The Agreement, as modified herein, constitutes the entire agreement between the Parties hereto with respect to the subject matter thereof, and no further modification of the Agreement will be binding unless evidenced by an agreement in writing signed by both Client and Independent Contractor.

[Balance of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Second Amendment as of the date first set forth above.

CLIENT:

INDEPENDENT CONTRACTOR:

MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDAITON DBA MAGNOLIA PUBLIC
SCHOOLS

NOFLIN ENTERPRISES

By: _____

By: _____

Name: Alfredo Rubalcava

Name: David Noflin

Title: CEO & Superintendent

Title: Authorized Signatory

EXHIBIT A

Description of Projects

The Projects are defined as construction or capital improvement projects at certain of Client's ten (10) school locations that Independent Contractor agrees to undertake under this Agreement. The Projects for the extended term shall include the following:

- Client's Prop 39 Clean Energy Jobs Act grant ("Prop 39") energy upgrade projects
- The Close-Out of Client's project at MSA-San Diego
- Certain discreet tasks associated with Client's MSA-Santa Ana school
- Such other projects as Client and Independent Contractor shall mutually agree upon

EXHIBIT B

Scope of Services

The Scope of Services to be provided under this Agreement initially are as follows and shall include all related services necessary for the successful completion of said projects:

Prop 39 Clean Energy Jobs Act grant (“Prop 39”) energy upgrade projects

- Supervise First Note Finance inc. in the implementation of all outstanding Prop 39 projects
- Assure collection of appropriate paperwork to meet State of California requirements (including prevailing wage requirements) as well as close out documentation, including but not limited to collection of all lien releases, operational manuals and instructions, and warranties. Present such materials to Client in a coherent and logical manner for storage and later use by Client.
- Where a particular Prop 39 project is on a co-located on a Los Angeles Unified School District site, assist FNF with securing LAUSD approvals to allow the Prop 39 project to be completed

Close Out of New Construction Project at Magnolia Science Academy – San Diego

- Coordinate with the Architect of Record (“AOR”) and Inspector of Record (“IOR”) to determine what scope of work is still outstanding in order to close the project with the Division of State Architect (“DSA”)
- Identify appropriate vendors to complete any outstanding scopes of work
- Coordinate with the AOR and IOR to submit any and all documentation required to close the project out with the DSA
- Identify any utility funded or low cost shade structure options with solar panels. Present the same to Client and the MSA-San Diego principal and staff.

Magnolia Science Academy – Santa Ana Facility Improvements

- Coordinate with the City of Santa Ana or such other municipal agencies, as necessary, the installation of school zone and other appropriate signage or improvements as required for the school's operation
- Such other facilities related matters as Client and Independent Contractor may agree upon



Exhibit B

First Amendment to Independent Contractor Agreement

FIRST AMENDMENT TO INDEPENDENT CONTRACTOR AGREEMENT

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RECITALS

A. The Parties entered into that certain Independent Contractor Agreement as of July 24, 2019 (the “**Original Agreement**”) for the Project (as defined in the Original Agreement”) pursuant to which Independent Contractor agreed to provide professional services to Client.

B. The Term of the Original Agreement expires as of October 23, 2019 and the Parties desire to amend the Original Agreement to extend the Term as of the Effective Date as set forth in this First Amendment.

AGREEMENT

NOW, THEREFORE, in reliance on the preceding recitals, and in consideration of the promises, covenants and agreements set forth in the Original Agreement and this First Amendment and such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto hereby agree as follows:

1. Defined Terms. Initially capitalized terms used but not otherwise defined in this First Amendment shall have the meanings assigned to such terms in the Original Agreement.

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c. The first sentence of Section 3.2 (“Payment Schedule”) is amended as follows:

The Fee shall be paid in arrears as follows: in three (3) equal installments of FOUR THOUSAND ONE HUNDRED SIXTY SIX AND 67/100 DOLLARS (\$4,166.67) for the first three (3) months and in two (2) equal installments of SIX THOUSAND ONE HUNDRED THIRTY THREE AND NO/100 DOLLARS (\$6,133.00) for the second two (2) months, commencing on the thirtieth (30) day following the commencement date and every thirty (30) days thereafter.

d. Exhibits A and B are amended and restated as Exhibits A and B attached hereto.

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FOUNDAITON DBA MAGNOLIA PUBLIC
SCHOOLS

NOFLIN ENTERPRISES

By: _____

By: _____

Name: Alfredo Rubalcava

Name: David Noflin

Title: CEO & Superintendent

Title: Authorized Signatory

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EXHIBIT B

Scope of Services

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Close Out of New Construction Project at Magnolia Science Academy – San Diego

- Coordinate with the Architect of Record (“AOR”) and Inspector of Record (“IOR”) to determine what scope of work is still outstanding in order to close the project with the Division of State Architect (“DSA”)
- Identify appropriate vendors to complete any outstanding scopes of work
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- Identify any utility funded or low cost shade structure options with solar panels. Present the same to Client and the MSA-San Diego principal and staff.



Exhibit C

Second Amendment to Independent Contractor Agreement

FIRST AMENDMENT TO INDEPENDENT CONTRACTOR AGREEMENT

THIS SECOND AMENDMENT TO INDEPENDENT CONTRACTOR AGREEMENT (this “**First Amendment**”) is entered into as of December 24, 2019 (the “**Effective Date**”), by and between Magnolia Educational & Research Foundation dba Magnolia Public Schools (“**Client**”) and Noflin Enterprises (“**Independent Contractor**”). Client and Independent Contractor shall be referred to individually as a “**Party**” and together as the “**Parties.**”

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INDEPENDENT CONTRACTOR:

MAGNOLIA EDUCATIONAL & RESEARCH
FOUNDAITON DBA MAGNOLIA PUBLIC
SCHOOLS

NOFLIN ENTERPRISES

By: _____

By: _____

Name: Alfredo Rubalcava

Name: David Noflin

Title: CEO & Superintendent

Title: Authorized Signatory

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Description of Projects

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- Such other projects as Client and Independent Contractor shall mutually agree upon

EXHIBIT B

Scope of Services

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Prop 39 Clean Energy Jobs Act grant (“Prop 39”) energy upgrade projects

- Supervise First Note Finance inc. in the implementation of all outstanding Prop 39 projects
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Close Out of New Construction Project at Magnolia Science Academy – San Diego

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Magnolia Science Academy – Santa Ana Facility Improvements

- Coordinate with the City of Santa Ana or such other municipal agencies, as necessary, the installation of school zone and other appropriate signage or improvements as required for the school's operation
- Such other facilities related matters as Client and Independent Contractor may agree upon

Cover Sheet

Approval of Resolution of Material Revision to Merge MSA-4 into MSA-6

Section: IV. Action Items
Item: D. Approval of Resolution of Material Revision to Merge MSA-4 into MSA-6
Purpose: Vote
Submitted by:
Related Material: IV D Resolution of Material Revision to Merge MSA-4 into MSA-6.pdf



Board Agenda Item #	IV.D – Action Item
Date:	December 15, 2019
To:	Magnolia Public Schools Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Alfredo Rubalcava, CEO & Superintendent
RE:	Resolution of Material Revision to Merge MSA-4 into MSA-6

Proposed Board Motion

I move that the MPS board approve the resolution that authorizes the following: (1) Material revision for MSA-6's Charter Petition and (2) Closure of MSA-4 effective June 30, 2020, and authorize the MPS CEO and Superintendent to take the necessary actions needed to complete the revision process.

Introduction

The Los Angeles Unified School District (LAUSD) allows charter operators to amend their charter petitions if the school wishes to make any substantial changes to their educational program, governance, organizational structure, amongst others changes. After a review of MPS' current enrollment viability it became apparent that the MPS West Los Angeles site, MSA-4, was steadily declining in student enrollment. Many efforts have been made for that campus to increase enrollment but the results have been unsubstantial, causing budget constraints on the school and the organization. Therefore, MPS' leadership team determined that the best solution would be to merge MSA-4 into MSA-6 and go through the Material Revision process with LAUSD.

Background

The Los Angeles Unified School District currently authorizes Magnolia Science Academy 4 and Magnolia Science Academy 6. The resolution being approved addresses the request for a material revision to Magnolia Science Academy 6's charter petition to reflect a merger with Magnolia Science Academy 4, which will make MSA-6 a middle and high school. Over the years, MSA 4 has experienced a decline in enrollment, which has resulted in fewer classrooms for the 131 6-12th graders. Considering the proximity between MSA-4 and MSA-6 being 2.4 miles apart, MPS administrators project little to no travel burdens on the current families due to the merger.

Currently, MSA-6 has four more years in their current charter term before their next renewal during the 2023-24 school year. MSA-6 has consistently maintained a steady level of student enrollment. The school currently occupies a church facility in the Palms neighborhood and in an effort to be proactive has submitted an application for additional facilities under Proposition 39 to ensure it has space to accommodate the high school grades at a separate facility.

With the approval of this merger, MSA-6 would inherit grades 9-12 and MSA-4 would close effective June 30, 2020.

Analysis (If applicable)

- NA

Budget Implications

- The anticipated budget implications for MSA-6 are reflected in the attached budget. At this moment for MSA-4 we can only project based off of available information and assumptions but the final impact will not be known until the actual merger is complete. MSA-4's net assets and liabilities will be absorbed by MSA-6 if the merger goes through.

Exhibits (attachments):

- Approval of Material Revision to Merge MSA-4 into MSA-6
- MSA-6 Budget for 2020-21 through 2023-24

Resolution of the Board of Directors No. 20191215-01
of
Magnolia Educational & Research Foundation

Approval of Material Revision to Merge MSA-4 into MSA-6

WHEREAS the Board of Directors (the “Board”) of Magnolia Educational & Research Foundation, doing business as Magnolia Public Schools (“MPS”) currently operates four (4) charter schools authorized by the Los Angeles Unified School District (“LAUSD”), including Magnolia Science Academy-4 (“MSA-4”) (grades 6-12), and Magnolia Science Academy-6 (“MSA-6”) (grades 6-8); and

WHEREAS, MSA-4 and MSA-6 are geographically close to one another, operating approximately 2.4 miles apart; and

WHEREAS, many MSA-6 students seek to continue their education at MSA-4 for high school; and

WHEREAS the Board seeks to materially revise the MSA-6 charter to merge MSA-4 into MSA-6, thereby closing MSA-4 effective June 30, 2020, and increasing the grade span of MSA-6 from 6-8 to 6-12 and its enrollment capacity to 400, effective July 1, 2020; and

WHEREAS the Board finds that it is in the best interests of the students of MSA-4 and MSA-6, to operate one school, serving grades 6-12; and

WHEREAS the rationale for this request includes the following:

1. MSA-4 has experienced declining enrollment, resulting in its budget being unsustainable for the 2020-21 school year and beyond;
2. Due to its declining enrollment, MSA-4 has received fewer classrooms and ancillary space from LAUSD at its current location at the Daniel Webster Middle School under Proposition 39 making it impossible to continue to run a successful program at that location (to wit, 5 classrooms, one resource center, and one admin building serving grades 6-12 and a total of 131 students);
3. The Board seeks to continue offering a grades 6-12 span school for students on the Westside of Los Angeles;
4. MSA-6 has been a high-performing school since its first year of operation in 2009, and the Board’s priority is to maintain the quality and fiscal health of all of its schools;
5. The MSA-6 facility is presently located at a church facility in the Palms neighborhood but has submitted an application to LAUSD to secure additional facilities under Proposition 39 and expects to receive sufficient space to accommodate the students from the merged schools;
6. The reconstituted MSA-6 school will have sufficient enrollment and resources to allow it to secure a private facility in the next few years; and

WHEREAS MPS is fully prepared and able to accommodate a high quality 6-12 charter school at MSA-6. The four-year budget forecast, which includes the remaining years of the charter term (Attachment A of the material revision) clearly demonstrates MPS’s ability to operate a 6-12 educational program while maintaining a balanced budget.

NOW THEREFORE, BE IT RESOLVED that MPS staff is hereby authorized and directed to prepare a material revision of the MSA-6 charter for submission to LAUSD; and

BE IT RESOLVED FURTHER that MPS authorizes and directs its Superintendent and Chief

Executive Officer, Alfredo Rubalcava, to sign the request for a material revision, execute the amendment document, and otherwise act on behalf of MPS with respect to the material revision application process; and

BE IT RESOLVED FURTHER, that MPS authorizes and directs Chief Executive Officer Rubalcava and other MPS staff, as needed, to work with LAUSD on the details of the material revision submission, and authorizes and directs Chief Executive Officer Rubalcava and other MPS staff, as needed, to amend the material revision application based on the best interests of MPS; and

BE IT RESOLVED FURTHER, that the nature and scope of the major changes associated with the material revision of the MSA-6 charter are and such changes are authorized to be included in the material revision:

- Amending the enrollment capacity to 400
- Revising relevant educational program elements to reflect a 6-12 academic program
- Revising the budget forecast to reflect the 6-12 program
- Including current District Required Language
- Updating the charter for any new laws enacted since the MSA-6 charter was last approved, pursuant to Education Code Section 47607(a)(2); and

BE IT RESOLVED FURTHER, that all actions by Chief Executive Officer Rubalcava and other MPS staff taken on behalf of MPS to do all that is necessary to effect and complete the actions authorized in this resolution are hereby ratified and approved.

* * *

IN WITNESS WHEREOF, the Board of Directors has adopted the above resolution by the following vote at a regular Board meeting this 15th day of December 2019.

Board Member	Vote
Mr. Haim Beliak	
Dr. Umit Yapanel	
Mr. Serdar Orazov	
Dr. Salih Dikbas	
Ms. Sandra Covarrubias	
Ms. Diane Gonzalez	
Mr. Shohrat Geldiyev	

AYES:

NOS:

ABSTENTIONS:

ABSENT:

By: _____
Haim Beliak, Chair

MULTI-YEAR PROJECTION					
MSA 6	Current 2019-20	YEAR 1 2020-21	YEAR 2 2021-22	YEAR 3 2022-23	YEAR 4 2023-24

REVENUE SUMMARY					
LCFF Entitlement	1,372,676	3,196,511	3,486,595	4,179,090	4,708,426
Federal Revenue	96,395	154,740	161,949	190,991	190,991
Other State Revenues	195,031	307,486	307,959	347,251	348,163
Other Local Revenues	13,296	17,500	17,500	17,500	17,500
Total Revenue	1,677,398	3,676,236	3,974,003	4,734,832	5,265,080
EXPENDITURE SUMMARY					
Certificated Salaries	708,695	1,241,988	1,340,374	1,630,695	1,868,890
Classified Salaries	149,933	253,320	273,387	332,602	381,185
Benefits	322,381	586,000	636,104	776,640	892,848
Books and Supplies	129,561	220,745	238,231	289,832	332,167
Services and Operating Exp.	535,982	1,146,360	1,224,891	1,472,739	1,668,119
Depreciation & Cap Outlay	18,224	37,536	37,536	37,536	37,536
Other Outflows	-	-	-	-	-
Total Expenditures	1,864,776	3,485,948	3,750,524	4,540,044	5,180,745
Net Revenues	(187,378)	190,288	223,479	194,788	84,336
Fund Balance					
Beginning Balance	1,814,290	1,626,912	1,817,200	2,040,680	2,235,468
Net Revenues	(187,378)	190,288	223,479	194,788	84,336
Ending Fund Balance	1,626,912	1,817,200	2,040,680	2,235,468	2,319,804
Ending Fund Balance as % of Exp	87.24%	52.13%	54.41%	49.24%	44.78%

	2019-20	2020-21	2021-22	2022-23	2023-24
Enrollment					
6	34	51	30	60	80
7	55	63	60	60	60
8	47	61	60	60	60
9	-	51	60	60	80
10	-	30	30	60	60
11	-	21	30	30	30
12	-	13	35	30	30
Total Enrollment (before changes)	136	290	305	360	400
Average Daily Attendance					
K-3	-	-	-	-	-
4-6	32.00	48.96	28.80	57.60	76.80
7-8	99.00	120.90	117.00	117.00	117.00
9-12	-	109.14	147.10	170.82	189.80
Total ADA (before changes)	131.00	279.00	292.90	345.42	383.60
CBEDS Enrollment	136	290	305	360	400
CBEDS Unduplicated Count	120	223	235	277	308
LCFF Unduplicated Percentage (1-Year):	88.24%	76.90%	77.05%	76.94%	77.00%
LCFF Unduplicated Percentage (3-Year):	83.70%	81.18%	79.07%	76.96%	77.00%

MULTI-YEAR PROJECTION					
MSA 6	Current 2019-20	YEAR 1 2020-21	YEAR 2 2021-22	YEAR 3 2022-23	YEAR 4 2023-24
REVENUE DETAIL					
LCFF Entitlement					
8011 State Aid	828,072	2,036,650	2,268,949	2,743,084	3,113,695
8012 EPA Entitlement	211,353	450,125	472,551	557,293	618,892
8096 InLieuPropTaxes	333,251	709,736	745,095	878,713	975,839
SUBTOTAL - LCFF Entitlement	1,372,676	3,196,511	3,486,595	4,179,090	4,708,426
Federal Revenue					
8181 SpEd - Revenue	32,777	55,496	58,261	68,709	68,709
8290 All Other Federal Revenue	63,618	99,243	103,688	122,282	122,282
SUBTOTAL - Federal Revenue	96,395	154,740	161,949	190,991	190,991
Other State Revenue					
8311 SpEd Revenue	83,631	159,474	154,271	181,936	181,936
8550 MandCstReimburs	2,613	2,275	4,846	5,088	6,000
8560 StateLotteryRev	23,288	60,237	63,342	74,727	74,727
8590 AllOthStateRev	85,500	85,500	85,500	85,500	85,500
SUBTOTAL - Other State Revenue	195,031	307,486	307,959	347,251	348,163
Local Revenue					
8699 Other Revenue	13,296	17,500	17,500	17,500	17,500
SUBTOTAL - Local Revenue	13,296	17,500	17,500	17,500	17,500
TOTAL REVENUE	1,677,398	3,676,236	3,974,003	4,734,832	5,265,080

MULTI-YEAR PROJECTION					
MSA 6	Current 2019-20	YEAR 1 2020-21	YEAR 2 2021-22	YEAR 3 2022-23	YEAR 4 2023-24
EXPENDITURES DETAIL					
Certificated Salaries					
1100 TeacherSalaries	516,447	934,910	1,008,971	1,227,511	1,406,812
1300 Cert Adminis	192,248	307,078	331,403	403,184	462,077
SUBTOTAL - Certificated Salaries	708,695	1,241,988	1,340,374	1,630,695	1,868,890
Classified Salaries					
2100 Instructional Aides	35,948	65,075	70,230	85,441	97,922
2200 Classified Support	29,000	52,498	56,657	68,928	78,997
2400 Clerical & Tech	84,985	135,747	146,500	178,232	204,266
SUBTOTAL - Classified Salaries	149,933	253,320	273,387	332,602	381,185
Employee Benefits					
3101 STRS	129,790	244,749	264,137	321,349	368,288
3202 PERS	32,214	61,953	70,544	88,581	104,285
3301 OASDI/Med	22,910	39,898	43,059	52,385	60,037
3401 HlthWelfare	125,000	217,689	234,933	285,819	327,568
3501 UnemployIns	457	796	859	1,045	1,198
3601 WorkersCmp	8,412	14,650	15,810	19,234	22,044
3901 OthBenes	3,598	6,266	6,762	8,227	9,429
SUBTOTAL - Employee Benefits	322,381	586,000	636,104	776,640	892,848
Books & Supplies					
4100 Text&CoreCurric	35,290	60,127	64,890	78,945	90,476
4200 BooksOthRefMats	1,200	2,045	2,207	2,684	3,077
4310 Ins Mats & Sups	39,843	67,885	73,262	89,131	102,150
4320 Office Supplies	12,000	20,445	22,065	26,844	30,765
4335 PE Supplies	2,000	3,408	3,678	4,474	5,128
4340 Educat Software	15,429	26,288	28,370	34,515	39,557
4345 NonInstStdntSup	1,099	1,872	2,020	2,458	2,817
4346 TeacherSupplies	5,000	8,519	9,194	11,185	12,819
4351 Yearbook	100	170	184	224	256
4390 Uniforms	1,850	3,152	3,402	4,138	4,743
4410 ClssrmFrnEqp<5k	2,000	3,408	3,678	4,474	5,128
4430 OfceFurnEqp<5k	3,000	5,111	5,516	6,711	7,691
4440 Computers <\$5k	7,600	12,949	13,975	17,001	19,485
4720 Food:Other Food	3,150	5,367	5,792	7,047	8,076
SUBTOTAL - Books and Supplies	129,561	220,745	238,231	289,832	332,167

MULTI-YEAR PROJECTION					
MSA 6	Current 2019-20	YEAR 1 2020-21	YEAR 2 2021-22	YEAR 3 2022-23	YEAR 4 2023-24
Services & Other Operating Expenses					
5101 CMO Fees	37,648	430,263	451,699	532,703	591,584
5210 MilesParkTolls	2,209	3,293	3,554	4,324	4,955
5215 TravConferences	1,000	1,491	1,609	1,957	2,243
5220 TraLodging	2,500	3,727	4,022	4,893	5,608
5300 DuesMemberships	2,500	3,727	4,022	4,893	5,608
5450 Other Insurance	8,000	11,927	12,871	15,659	17,946
5500 OpsHousekeeping	3,485	5,195	5,607	6,822	7,818
5510 Gas & Electric	8,500	12,672	13,676	16,638	19,068
5610 Rent & Leases	114,000	169,953	183,416	223,143	255,737
5620 EquipmentLeases	5,000	7,454	8,045	9,787	11,217
5800 ProfessServices	72,139	92,182	99,484	121,032	138,711
5810 Legal	20,000	17,500	18,886	22,977	26,333
5819 SchlProgs-Other	1,000	1,278	1,379	1,678	1,923
5850 Oversight Fees	16,039	31,965	34,866	41,791	47,084
5857 Payroll Fees	13,082	16,717	18,041	21,948	25,154
5860 Service Fees	530	1,157	1,249	1,519	1,741
5863 Prof Developmnt	1,000	2,183	2,356	2,866	3,285
5864 Prof Dev-Other	10,907	13,938	15,042	18,300	20,973
5869 SpEd Ctrct Inst	47,242	60,368	65,150	79,261	90,839
5872 SPED Fees (incl Encroachment)	23,607	30,166	32,556	39,608	45,393
5884 Substitutes	43,000	54,947	59,300	72,144	82,682
5890 OthSvcsNon-Inst	2,223	2,841	3,066	3,730	4,275
5900 Communications	4,000	5,111	5,516	6,711	7,691
5920 TelecomInternet	25,000	31,946	34,477	41,944	48,071
5930 PostageDelivery	5,000	6,389	6,895	8,389	9,614
5940 Technology	19,300	24,663	26,617	32,382	37,112
SUBTOTAL - Services & Operations	535,982	1,146,360	1,224,891	1,472,739	1,668,119
Capital Outlay & Depreciation					
6900 Depreciation	18,224	37,536	37,536	37,536	37,536
SUBTOTAL - Cap Outlay & Dep.	18,224	37,536	37,536	37,536	37,536
Other Outflows					
7310 Indirect Costs	-	-	-	-	-
7438 InterestExpense	-	-	-	-	-
SUBTOTAL - Other Outflows	-	-	-	-	-
TOTAL EXPENDITURES	1,864,776	3,485,948	3,750,524	4,540,044	5,180,745

Monthly Revenue Assessor - B Unaudited Financial Projections FUNDING CALCULATIONS					Monthly Revenue Assessor - B Unaudited Financial Projections FUNDING CALCULATIONS					Monthly Revenue Assessor - B Unaudited Financial Projections FUNDING CALCULATIONS					Monthly Revenue Assessor - B Unaudited Financial Projections FUNDING CALCULATIONS					Monthly Revenue Assessor - B Unaudited Financial Projections FUNDING CALCULATIONS				
CURRENT YEAR (2019-20)					BASIC PLAN A					BASIC PLAN B					BASIC PLAN C					BASIC PLAN D				
	BIDA	ADA	Subtotal	TOTAL		BIDA	ADA	Subtotal	TOTAL		BIDA	ADA	Subtotal	TOTAL		BIDA	ADA	Subtotal	TOTAL		BIDA	ADA	Subtotal	TOTAL
LOPP FUNDING																								
LCFF State Aid	\$ 9,121.00	101.00	\$ 9,222.00		LCFF State Aid	\$ 9,121.00	101.00	\$ 9,222.00		LCFF State Aid	\$ 9,121.00	101.00	\$ 9,222.00		LCFF State Aid	\$ 9,121.00	101.00	\$ 9,222.00		LCFF State Aid	\$ 9,121.00	101.00	\$ 9,222.00	
LCFF Education Protection Account	1,615.00	151.00	1,766.00		LCFF Education Protection Account	1,615.00	151.00	1,766.00		LCFF Education Protection Account	1,615.00	151.00	1,766.00		LCFF Education Protection Account	1,615.00	151.00	1,766.00		LCFF Education Protection Account	1,615.00	151.00	1,766.00	
LCFF In-School Property Taxes	2,642.00	101.00	2,743.00		LCFF In-School Property Taxes	2,642.00	101.00	2,743.00		LCFF In-School Property Taxes	2,642.00	101.00	2,743.00		LCFF In-School Property Taxes	2,642.00	101.00	2,743.00		LCFF In-School Property Taxes	2,642.00	101.00	2,743.00	
Total LOPP Funding:	\$ 13,378.00	353.00	\$ 13,731.00		Total LOPP Funding:	\$ 13,378.00	353.00	\$ 13,731.00		Total LOPP Funding:	\$ 13,378.00	353.00	\$ 13,731.00		Total LOPP Funding:	\$ 13,378.00	353.00	\$ 13,731.00		Total LOPP Funding:	\$ 13,378.00	353.00	\$ 13,731.00	
REVENUE SOURCES					REVENUE SOURCES					REVENUE SOURCES					REVENUE SOURCES					REVENUE SOURCES				
State Income Tax	\$ 41,726.00				State Income Tax	\$ 41,726.00				State Income Tax	\$ 41,726.00				State Income Tax	\$ 41,726.00				State Income Tax	\$ 41,726.00			
State Property Tax	8,840.00				State Property Tax	8,840.00				State Property Tax	8,840.00				State Property Tax	8,840.00				State Property Tax	8,840.00			
State Sales Tax	6,028.00				State Sales Tax	6,028.00				State Sales Tax	6,028.00				State Sales Tax	6,028.00				State Sales Tax	6,028.00			
BIDA Funding:	\$ 56,594.00				BIDA Funding:	\$ 56,594.00				BIDA Funding:	\$ 56,594.00				BIDA Funding:	\$ 56,594.00				BIDA Funding:	\$ 56,594.00			
Other Federal Revenues					Other Federal Revenues					Other Federal Revenues					Other Federal Revenues					Other Federal Revenues				
Other Federal Revenues	\$ 32,277.17				Other Federal Revenues	\$ 32,277.17				Other Federal Revenues	\$ 32,277.17				Other Federal Revenues	\$ 32,277.17				Other Federal Revenues	\$ 32,277.17			
Total Other Federal Revenues:	\$ 32,277.17				Total Other Federal Revenues:	\$ 32,277.17				Total Other Federal Revenues:	\$ 32,277.17				Total Other Federal Revenues:	\$ 32,277.17				Total Other Federal Revenues:	\$ 32,277.17			
TOTAL FEDERAL REVENUES	\$ 88,871.17				TOTAL FEDERAL REVENUES	\$ 88,871.17				TOTAL FEDERAL REVENUES	\$ 88,871.17				TOTAL FEDERAL REVENUES	\$ 88,871.17				TOTAL FEDERAL REVENUES	\$ 88,871.17			
OTHER STATE REVENUES					OTHER STATE REVENUES					OTHER STATE REVENUES					OTHER STATE REVENUES					OTHER STATE REVENUES				
Prop 20 Lottery	\$ 18,589.81				Prop 20 Lottery	\$ 18,589.81				Prop 20 Lottery	\$ 18,589.81				Prop 20 Lottery	\$ 18,589.81				Prop 20 Lottery	\$ 18,589.81			
Additional Other State Revenues	\$ 18,589.81				Additional Other State Revenues	\$ 18,589.81				Additional Other State Revenues	\$ 18,589.81				Additional Other State Revenues	\$ 18,589.81				Additional Other State Revenues	\$ 18,589.81			
TOTAL OTHER STATE REVENUES	\$ 37,169.62				TOTAL OTHER STATE REVENUES	\$ 37,169.62				TOTAL OTHER STATE REVENUES	\$ 37,169.62				TOTAL OTHER STATE REVENUES	\$ 37,169.62				TOTAL OTHER STATE REVENUES	\$ 37,169.62			
TOTAL OTHER LOCAL REVENUES	\$ 15,366.76				TOTAL OTHER LOCAL REVENUES	\$ 15,366.76				TOTAL OTHER LOCAL REVENUES	\$ 15,366.76				TOTAL OTHER LOCAL REVENUES	\$ 15,366.76				TOTAL OTHER LOCAL REVENUES	\$ 15,366.76			
TOTAL REVENUES	\$ 1,677,387.27				TOTAL REVENUES	\$ 1,677,387.27				TOTAL REVENUES	\$ 1,677,387.27				TOTAL REVENUES	\$ 1,677,387.27				TOTAL REVENUES	\$ 1,677,387.27			

Magnolia Science Academy - 6 Updated Financial Projection FUNDING ASSUMPTIONS

ENROLLMENT/ADA ASSUMPTIONS:

1. By-grade enrollment projections are shown on the Enrollment Assumptions sheet.
2. ADA ratios are based on historical averages.
3. LCFF Unduplicated % estimated at 77.00% based on 2019/20 actual rate.

FEDERAL FUNDING ASSUMPTIONS:

1. ESSA Title I, II, and IV included. Rates based on pro-rated historical levels.
2. IDEA SPED assumed at LAUSD SELPA rates.

STATE FUNDING ASSUMPTIONS:

1. LCFF funding is calculated using FCMAT's LCFF Calculator and results entered into the Funding Calculations page, assuming Los Angeles Unified School District as the highest physical location district for both base year and unduplicated percentage calculations.
2. COLAs and gap rates taken from LCFF FCMAT Calculator 20.2c.
3. Mandate Block Grant funding is assumed based on prior year P-2 ADA.
4. AB602 SPED assumed at LAUSD SELPA rates.

LOCAL FUNDING ASSUMPTIONS:

1. Other Local Revenue of \$17,500 from local fundraising and other sources.

CASH FLOW ASSUMPTIONS:

1. No loans currently assumed.
2. No state deferrals currently assumed.

Magnolia Science Academy - 6
Updated Financial Projection
ENROLLMENT AND A.D.A. ASSUMPTIONS

	(Current Year)		YEAR 1		YEAR 2		YEAR 3		YEAR 4	
	2019-20		2020-21		2021-22		2022-23		2023-24	
	ENROLL	ADA	ENROLL	ADA	ENROLL	ADA	ENROLL	ADA	ENROLL	ADA
Total TK-3 Enrollment	0	-	0	-	0	-	0	-	0	-
Total 4-6 Enrollment	34	32.00	51	48.96	30	28.80	60	57.60	80	76.80
Total 7-8 Enrollment	102	99.00	124	120.90	120	117.00	120	117.00	120	117.00
Total 9-12 Enrollment	0	-	115	109.14	155	147.10	180	170.82	200	189.80
TTL Enrollment/ADA	136	131.00	290	279.00	305	292.90	360	345.42	400	383.60
Non-Classroom-Based										
TTL TK Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Kinder Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 1 Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 2 Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 3 Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 4 Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 5 Enrollment	-	-	-	-	-	-	-	-	-	-
TTL Grade 6 Enrollment	34	32.00	51	48.96	30	28.80	60	57.60	80	76.80
TTL Grade 7 Enrollment	55	53.38	63	61.43	60	58.50	60	58.50	60	58.50
TTL Grade 8 Enrollment	47	45.62	61	59.48	60	58.50	60	58.50	60	58.50
TTL Grade 9 Enrollment	-	-	51	48.40	60	56.94	60	56.94	80	75.92
TTL Grade 10 Enrollment	-	-	30	28.47	30	28.47	60	56.94	60	56.94
TTL Grade 11 Enrollment	-	-	21	19.93	30	28.47	30	28.47	30	28.47
TTL Grade 12 Enrollment	-	-	13	12.34	35	33.22	30	28.47	30	28.47
TOTAL:	136	131.00	290	279.00	305	292.90	360	345.42	400	383.60
LCFF Unduplicated Calc:										
Enrollment*	136		290		305		360		400	
Unduplicated Count*	120		223		235		277		308	
Unduplicated Percentage:	88.24%		76.90%		77.05%		76.94%		77.00%	
Blended 3-year UP:	83.70%		81.18%		79.07%		76.96%		77.00%	

Magnolia Science Academy - 6 Updated Financial Projection STAFFING ASSUMPTIONS

Staffing Levels - Rationale/Explanation

While we will make every effort to minimize staff turnover, all staff will be "at-will". If pre-enrollments do not indicate capacity enrollment, teaching staff will only be retained at levels sufficient to meet core subject needs, and additional teachers added only as enrollment grows. If enrollment drops thereafter, while every effort will be maintained to provide a stable learning environment, staff reductions will be enacted if needed to maintain fiscal solvency as a result of lower ADA-based revenues.

Staffing structure and staffing levels are consistent with historical actuals as well as the general framework outlined in the petition narrative. We do not anticipate substantive changes from the staffing plan outlined in the petition, although the final staffing and allocation is subject to change based on final demographics, SPED student count and other factors.

Annual Pay Increases - Rationale/Explanation

We assume two primary factors affecting annual compensation adjustments: (a) the statewide COLA increase, which we plan to use to adjust our salary scales; and (b) the step-and-column adjustments for each staff member. Generally we plan for normal step-and-column increases as well as overall COLA increases to the entire scale based on statewide COLAs and other factors. For this Financial Update, we are assuming an overall COLA increase matching the FCMAT statewide COLA projections, and an average 2.50% step/column annual increase (taking terms/replacements into account).

Benefits - Rationale/Explanation

We are assuming benefits at the following rates:

STRS = as per published CalSTRS rates
 PERS = as per published CalPERS rates
 OASDI = 6.20%
 Medicare = 1.45%

For budget purposes we are assuming all certificated staff are CalSTRS participants.
 For budget purposes we are assuming all classified staff are CalPERS participants (after 1,000 hours).
 We are assuming benefits for all certificated staff as well as exempt full-time classified staff. Currently we are calculating healthcare costs as a flat percentage of payroll as an overall budget estimate. Actual healthcare costs will be determined by employee following a full analysis of potential insurance providers, and plans will be selected through competitive bidding - plans may be modified during the charter renewal term if necessary.

Cover Sheet

Approval of FY 2018-19 Audited Financial Reports

Section: IV. Action Items
Item: E. Approval of FY 2018-19 Audited Financial Reports
Purpose: Vote
Submitted by:
Related Material: IV E 2018-19 Audit Report.pdf



Board Agenda Item #	V E- Action Item
Date:	December 12, 2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Financial Officer
RE:	Approval of 2018-19 Audit Report

Proposed Board Recommendation

Motion to approve the Financial Audit Report for fiscal year 2018-19 of all ten (10) schools and the consolidated audit report including the home office.

Background

Under Education Code (EC) Sections 41020 through 41020.8, all school districts must file their annual audit reports for the preceding fiscal year by December 15, with the Los Angeles County Superintendent of Schools (County Superintendent), the California Department of Education (CDE), and the State Controller's Office (SCO). The audit shall be conducted by an auditor from the list approved by the SCO and mutually agreeable to the authorizers and the Charter School.

The Governing Board of each school district must review the annual audit report for the prior fiscal year at a public meeting. According to EC Section 41020.3, the review will include: “. . . the annual audit of the local education agency for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor, and any description of correction or plans to correct any exceptions or management letter issue.”

The board is required to review and approve annual financial audit report annually and submit to our various oversight entities by December 15.

In an audit engagement:

- The auditor explains that preparing the financial statements and maintaining sound internal control is management responsibility;
- The auditor explains its own responsibilities, duties and rights regarding the engagement; emphasizes the nature of the audit and states that the auditor only examines the internal controls and accounting records on a sample basis;

- The auditor gives his opinion on the financial statements:
 - ❑ An unqualified report concludes that the financial statements present fairly its affairs in all material aspects. Also known as a clean report, which implies that any changes in the accounting policies, application and effects are adequately determined and disclosed.
 - ❑ A qualified report is when there is a limitation of scope in auditor's work, or when there is disagreement with management regarding application, acceptability or adequacy of accounting policies. The issue must be material or financially worth consideration to qualify a report.
 - ❑ If issues are material and pervasive, the auditor issues a disclaimer or adverse opinion.

Independent auditor's report received from Eide Bailey at the end of their audit engagement with MERF for fiscal year 2018-19 states that the financial statements present fairly, in all material aspects, the respective financial position of the Charter School, as of June 30, 2019. The changes in its net assets, its cash flows for the year that ended, in accordance with accounting principles generally accepted in the United States of America.

Budget Implications

None.

How Does This Action Relate/Affect/Benefit All MSAs?

All MPS schools will be in compliance with the federal, state and all authorizers' requirements.

Name of Staff Originator:

Nanie Montijo, Chief Financial Officer

Exhibits (attachments):

2018-19 Audit Reports for each MPS school
2018-19 MERF and Consolidated Audit Report

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Educational & Research Foundation (the Foundation) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows, and statement of functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule of Expenditures of Federal Awards and the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 21,006,470	\$ 22,600,493
Accounts receivable	4,871,200	4,781,620
Prepaid expenses and other current assets	53,464	1,027,408
Total Current Assets	<u>25,931,134</u>	<u>28,409,521</u>
Non-Current Assets		
Restricted cash	2,406,421	4,659,987
Bond issue costs, net	998,413	1,076,199
Security deposit	-	43,117
Property and equipment	55,361,868	46,055,549
Less: accumulated depreciation	(4,871,177)	(4,120,699)
Total Non-Current Assets	<u>53,895,525</u>	<u>47,714,153</u>
Total Assets	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 5,970,301	\$ 3,232,385
Deferred revenue	2,367,850	2,290,659
Current portion of long-term obligations	942,596	901,166
Total Current Liabilities	<u>9,280,747</u>	<u>6,424,210</u>
Long-Term Obligations		
Non-current portion of long-term obligations	<u>42,351,051</u>	<u>42,788,502</u>
Total Liabilities	<u>51,631,798</u>	<u>49,212,712</u>
Net Assets		
Without donor restrictions		
Designated	2,391,084	2,443,468
Unrestricted	25,803,777	24,467,494
Total Net Assets	<u>28,194,861</u>	<u>26,910,962</u>
Total Liabilities and Net Assets	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 39,134,304	\$ 36,259,514
Federal revenue	2,728,824	3,851,301
State revenue	7,421,950	8,196,747
Local revenue	722,973	1,528,298
Total Revenues	<u>50,008,051</u>	<u>49,835,860</u>
Expenses		
Program services	32,859,703	27,967,973
Management and general	15,864,449	16,435,335
Total Expenses	<u>48,724,152</u>	<u>44,403,308</u>
Change in Net Assets	1,283,899	5,432,552
Net Assets, Beginning of Year	<u>26,910,962</u>	<u>21,478,410</u>
Net Assets, End of Year	<u>\$ 28,194,861</u>	<u>\$ 26,910,962</u>

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 1,283,899	\$ 5,432,552
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	1,125,296	1,136,583
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(89,580)	(1,587,208)
Decrease in prepaid expenses	973,944	592,749
Decrease in security deposits	43,117	21,573
Increase in accounts payable	2,737,916	19,894
Increase in deferred revenue	77,191	1,771,596
Net Cash Provided by Operating Activities	<u>6,151,783</u>	<u>7,387,739</u>
Cash Flows From Investing Activities		
Restricted cash received (used)	2,253,566	(4,011,227)
Purchases of property and equipment	(9,681,137)	(16,029,316)
Net Cash (Used) by Investing Activities	<u>(7,427,571)</u>	<u>(20,040,543)</u>
Cash Flows From Financing Activities		
Bond issue cost, net	77,786	(717,417)
Loan proceeds	-	29,264,988
Loan principal payment	(396,021)	(3,129,116)
Net Cash Provided (Used) by Financing Activities	<u>(318,235)</u>	<u>25,418,455</u>
Net Increase (Decrease) in Cash	(1,594,023)	12,765,651
Cash, Beginning of Year	<u>22,600,493</u>	<u>9,834,842</u>
Cash, End of Year	<u>\$ 21,006,470</u>	<u>\$ 22,600,493</u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u>\$ 2,254,208</u>	<u>\$ 1,183,925</u>

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

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

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 18,101,150	\$ 6,217,434	\$ 24,318,584
Employee benefits	3,375,994	-	3,375,994
Payroll taxes	5,261,579	1,424,213	6,685,792
Total Personnel	<u>26,738,723</u>	<u>7,641,647</u>	<u>34,380,370</u>
Operating			
Fees for services	-	2,389,516	2,389,516
Advertising and promotions	-	139,296	139,296
Office expenses	343,814	131,974	475,788
Information technology	214,391	-	214,391
Occupancy	-	1,790,006	1,790,006
Travel	-	105,990	105,990
Conferences and meeting	-	13,103	13,103
Interest	-	2,254,208	2,254,208
Depreciation	1,125,296	-	1,125,296
Insurance	-	239,214	239,214
Other expenses	907,008	1,159,495	2,066,503
Capital outlay	1,182,012	-	1,182,012
Special Education Local Plan Area fees	810,474	-	810,474
Instructional materials	772,729	-	772,729
Nutrition	302,878	-	302,878
District oversight fees	462,378	-	462,378
Total Operating	<u>6,120,980</u>	<u>8,222,802</u>	<u>14,343,782</u>
Total Functional Expenses	<u>\$ 32,859,703</u>	<u>\$ 15,864,449</u>	<u>\$ 48,724,152</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2019, MERF operated ten Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,957 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 Foundations offer the following programs, which are mostly free of charge:

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

The Foundations operate under the approval of the California State Board 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

Magnolia Properties Management, Inc. (MPM Inc.)

On January 12, 2012, MPM Inc., a separate 501(c)(3) nonprofit public benefit corporation, was formed for the primary purposes to facilitate the development of charter schools. Additional purposes are to lease, to own, manage and operate an educational institution, to provide charter school facilities and operational and other support to charter schools, to assist philanthropists and foundations in accelerating the growth of high quality charter schools, and to provide and otherwise obtain or assist in obtaining charter school financing. MPM Inc. was formed and is operated exclusively for the benefit of, to perform the functions of, and to carry out the purposes of Magnolia Educational & Research Foundation (MERF).

MPM Sherman Way, LLC

MERF formed the MPM Sherman Way, 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 Magnolia Science Academy 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. MPM Inc. is the sole member of the LLC.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

MPM Santa Ana, LLC

MERF formed the MPM Santa Ana, 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 Magnolia Science Academy Santa Ana (MSA-SA) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SA Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

MPM San Diego, LLC

MERF formed the MPM San Diego, 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 Magnolia Science Academy San Diego (MSA-SD) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SD Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

Principles of Consolidation

The consolidated financial statements include the accounts of Magnolia Science Academy, Magnolia Science Academy 2, Magnolia Science Academy, 3, Magnolia Science Academy 4, Magnolia Science Academy 5, Magnolia Science Academy 6, Magnolia Science Academy 7, Magnolia Science Academy Bell, Magnolia Science Academy Santa Ana, and Magnolia Science Academy San Diego. All material intercompany transactions have been eliminated (Eliminations). As a part of its mission, Magnolia Educational & Research Foundation, has created a limited liability companies that own real estate for educational purposes. Magnolia Educational & Research Foundation, is the sole member of these LLC's. They lease these facilities to MPM Inc. Since this support is closely aligned with Magnolia Educational & Research Foundation and they are financially inter-related, the MPM Inc. financial information is consolidated with the Magnolia Educational & Research Foundation audit. This consolidation is required due to common control with shared leadership and management. For disclosure purposes, the financial information of the 14 entities are separated within the report as a matter of clarification.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents (including cash in the County Investment Pool).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019, there was no provision for the allowance for uncollectable accounts receivable.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from State and Federal sources. The Charter School receives State funding based on each of the enrolled student's average daily attendance (ADA) in its schools. The Charter School receives Federal grants, which are paid through the California Department of Education or other Federal and State agencies. Revenues related to these Federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the State is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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 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. The Charter School is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Charter School is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Charter School determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Charter School to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Charter School's mission.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

Intracompany Payable

Intracompany payable results from a net cumulative difference between resources provided or used by the CMO to the Charter Schools and reimbursement for those resources.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MERF for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, MSA adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets

The effect on the Charter School's statement of financial position as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 21,478,410	\$ (21,478,410)	\$ -
Net assets without donor restrictions		21,478,410	21,478,410
Net assets, end of the year			
Unrestricted	\$ 26,910,962	\$ (26,910,962)	\$ -
Net assets without donor restrictions	-	26,910,962	26,910,962

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

NOTE 2 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 21,006,470	\$ 22,600,493
Accounts receivable	4,871,200	4,781,620
Prepaid expenses and other assets	53,464	1,027,408
Financial Assets, at year end	<u>25,931,134</u>	<u>28,409,521</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(2,391,084)</u>	<u>(2,443,468)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,540,050</u>	<u>\$ 25,966,053</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>		<u>2018</u>	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 20,332,541	\$ 23,309,682	\$ 22,096,194	\$ 25,881,140
Cash with Orange County Investment Pool	591,479	N/A	442,241	N/A
Cash with San Diego County Investment Pool	82,450	N/A	62,058	N/A
Total	<u>\$ 21,006,470</u>	<u>\$ 23,309,682</u>	<u>\$ 22,600,493</u>	<u>\$ 25,881,140</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, 2019 and 2018, MERF had \$22,809,682 and \$25,388,140, respectively, in excess of FDIC insured limits in bank accounts.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

NOTE 4 - RESTRICTED CASH

At June 30, 2019 and 2018, cash held for restricted purposes consisted of the following:

	2019	2018
Current restricted cash	\$ 2,406,421	\$ 4,659,987

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, 2019 and 2018, MERF had \$2,156,421 and \$4,409,987, 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, 2019 and 2018, are classified in the accompanying financial statements as follows:

	2019	2018
	Reported	Reported
	Amount	Amount
Investment Type		
Orange County Pooled Investment Funds	\$ 591,479	\$ 442,241
San Diego County Pooled Investment Funds	82,450	62,058
Total	\$ 673,929	\$ 504,299

All assets have been valued using a market approach, with quoted market prices.

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 Foundations 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. MERF manages exposure to interest rate risk by investing in the County Pool.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

Weighted Average Maturity

MERF monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled Investment Funds	\$ 591,479	310	\$ 442,241	302
San Diego County Pooled Investment Funds	82,450	528	62,058	370
Total	<u>\$ 673,929</u>		<u>\$ 504,299</u>	

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.

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

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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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.

Uncategorized - Investments in the Orange and San Diego County Treasury Investment Pools are not measured using the input levels above because the Foundations' transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The fair value measurements are as follows at June 30, 2019:

Investment Type	2019		2018	
	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
Orange County Pooled Investment Funds	\$ 591,479	\$ 591,479	\$ 442,241	\$ 442,241
San Diego County Pooled Investment Funds	82,450	82,450	62,058	62,058
Total	<u>\$ 673,929</u>	<u>\$ 673,929</u>	<u>\$ 504,299</u>	<u>\$ 504,299</u>

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 2,581,620	\$ 2,261,602
Federal receivables	555,845	965,463
State receivables	1,244,316	1,216,639
Lottery	175,873	335,247
Local receivables	313,546	2,669
	<u>\$ 4,871,200</u>	<u>\$ 4,781,620</u>

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NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 53,464	\$ 1,027,408

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Land	\$ 2,566,854	\$ 2,386,854
Building improvements	28,388,867	28,388,867
Computers and equipment	2,808,123	2,775,055
Leasehold improvements	10,061	384,879
Work in progress	21,587,963	12,119,894
Subtotal	55,361,868	46,055,549
Less: accumulated depreciation	(4,871,177)	(4,120,699)
Total Property and Equipment	\$ 50,490,691	\$ 41,934,850

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 1,231,219	\$ 733,254
Compensated absences	121,768	121,768
Due to grantor	-	395,910
Vendor payable	4,617,314	1,981,453
	\$ 5,970,301	\$ 3,232,385

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

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NOTE 11 - DEFERRED REVENUE

Deferred revenue at June 30, 2019, consisted of the following:

	2019	2018
State sources	\$ 2,367,850	\$ 2,290,659

NOTE 12 - LONG-TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, MPM Sherman Way, MPM Santa Ana, and MPM San Diego (the Lessees) or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MERF by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019 and 2018, MSA had a 3.39 and 3.16, respectively, Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

2019		2018	
Debt Service Coverage		Debt Service Coverage	
Net Income	\$ 1,283,899	Net Income	\$ 5,432,552
Depreciation	1,125,296	Depreciation	1,228,552
Management fees (50%)	3,040,412	Management fees (50%)	3,196,425
Rent	2,277,538	Rent	1,614,758
Income Available for Coverage	7,727,145	Income Available for Coverage	11,472,287
Debt Service	2,277,538	Debt Service	1,614,758
Debt Service Coverage	3.39	Debt Service Coverage	7.10
Limit	1.10	Limit	1.10
Compliance	Yes	Compliance	Yes

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The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019 and 2018, MERF had 580 and 229, respectively days cash on hand and was in compliance with the 45 days required.

2019		2018	
Days Cash on Hand		Days Cash on Hand	
Total Expenses	\$ 14,343,782	Total Expenses	\$ 16,435,335
Depreciation	1,125,296	Depreciation	1,228,552
Cash Expenses	13,218,486	Cash Expenses	15,206,783
Expense/Day	36,215	Expense/Day	41,662
Cash	21,006,470	Cash	22,600,493
Days Cash on Hand		Days Cash on Hand	
Limit		Limit	
Compliance		Compliance	
	580		542
	45		45
	Yes		Yes

California School Finance Authority (CSFA) School Facility Revenue Bonds

Series 2014A and 2014B

In June 2014, 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, 2019, the principal balance outstanding was \$5,695,000.

Series 2017A-1 and 2017A-2

In August 2017, the CSFA issued \$25,000,000 in School Facilities Revenues, Series 2017A-1 and Series 2017A-2 for the purpose of a loan to MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM Sand Diego, 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 July 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2019, the principal balance outstanding was \$25,000,000.

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

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The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 620,000	\$ 1,641,088	\$ 2,261,088
2021	655,000	1,607,444	2,262,444
2022	685,000	1,607,444	2,292,444
2023	720,000	1,572,269	2,292,269
2024	760,000	1,535,387	2,295,387
2025-2029	4,310,000	7,117,626	11,427,626
2030-2034	5,025,000	6,498,538	11,523,538
2035-2039	6,735,000	4,843,338	11,578,338
2040-2044	9,035,000	2,611,500	11,646,500
2045	2,150,000	256,319	2,406,319
Total	<u>\$ 30,695,000</u>	<u>\$ 29,290,953</u>	<u>\$ 59,985,953</u>

Loans (CCSFP)

Magnolia Science Academy Santa Ana (MSA SA)

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 \$8,706,990 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, 2019, was \$8,264,342.

Fiscal Year Ending June 30,	Payments
2020	\$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	<u>(2,519,103)</u>
Total	<u>\$ 8,265,453</u>

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

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Magnolia Science Academy San Diego (MSA SD)

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, 2019, was \$151,806.

Note Payable

Magnolia Science Academy (MSA 1)

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of \$1,480,000 on September 6, 2017 and the second advance of \$2,785,000 on December 22, 2017. Monthly payment terms include an interest rate of ten percent beginning in 2017 and maturing June 30, 2045. The balance as of June 30, 2019 was \$4,181,388.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	\$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	(6,472,654)
Total	<u>\$ 4,181,388</u>

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

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NOTE 13 - NET ASSETS

Net assets at June 30, 2019, consisted of the following:

	<u>2019</u>	<u>2018</u>
Net Assets without Donor Restrictions		
Designated for State programs	2,391,084	2,443,468
Unrestricted	<u>25,803,777</u>	<u>24,467,494</u>
Total Net Assets without Donor Restrictions	<u>\$ 28,194,861</u>	<u>\$ 26,910,962</u>

NOTE 14 - FACILITIES USES AGREEMENTS

Magnolia Educational & Research Foundation

The Magnolia Educational and Research Foundation entered into a lease agreement with Kajima Development Corporation on February 18, 2016, for the property located at 250 E. First Street, Los Angeles, California. Monthly payments in the amount of \$13,000 shall be made beginning in fiscal year 2015-2016. The term of the lease expires on April 30, 2023. Lease payments during 2018-2019 were \$166,200.

<u>Year Ending June 30,</u>	<u>Facility Lease Payments</u>
2020	\$ 171,600
2021	177,600
2022	184,600
2023	<u>158,000</u>
Total	<u>\$ 691,800</u>

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

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Magnolia Science Academy

The 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 shall be made beginning in fiscal year 2014-2015. The term of the lease expires on June 25, 2044. Lease payments during 2018-2019 were \$1,291,901.

Year Ending June 30,	Facility Lease Payments
2020	\$ 1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
Thereafter	27,255,683
Total	<u>\$33,754,437</u>

Magnolia Science Academy 7

The 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 and ending in fiscal year 2021-2022. Lease payments during 2018-2019 were \$280,236

Fiscal Year	Facility Lease Payments
2020	\$ 265,656
2021	273,624
2022	281,832
Total	<u>\$ 821,112</u>

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Magnolia Science Academy San Diego

The 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 expires on June 30, 2020 and include rental fees that shall be paid on the first of every month. Lease payments during 2018-2019 were \$240,000.

Year Ending June 30,	Facility Lease Payments
<u>2020</u>	<u>\$ 240,000</u>

The Magnolia Science Academy San Diego entered into a lease agreement with MPM Sherman Way, LLC on August 1, 2017, for the property located at 6525 Estrella Avenue, San Diego, California. Monthly payments shall be made beginning in fiscal year 2017-2018. The term of the lease expires on July 1, 2044. Lease payments during 2018-2019 were \$473,760.

Year Ending June 30,	Facility Lease Payments
<u>2020</u>	\$ 476,172
2021	476,397
2022	478,130
2023	481,275
2024	482,139
Thereafter	10,281,145
Total	<u>\$12,675,258</u>

NOTE 15 - 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 accompanying notes are an integral part of these 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 Foundation chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Foundation 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 Foundation 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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 Foundation 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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and the Foundation's total contributions were \$2,532,531 and \$2,272,070, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

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

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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, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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 Foundation 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, 2019 and 2018, are presented above and the total Charter School contributions were \$654,602 and \$485,547, respectively.

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

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On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,037,817 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$192,107 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 16 - 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 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2019 and 2018, Magnolia Science Academy Charter Schools made payments of \$441,986 and \$448,499, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 17 - CONTINGENCIES

Grants

MERF 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

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

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Litigation

MERF is not currently a party to any legal proceedings.

NOTE 18 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements through _____, 2019, which is the date the consolidated 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 consolidated financial statements.

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

SUPPLEMENTARY INFORMATION

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through CDE:			
Elementary and Secondary Education Act			
Title I, Part A	84.010	14329	\$ 1,368,355
Title II, Part A	84.367	14341	164,399
Title III, English Learner Student Program	84.365	14346	69,329
Title IV, Part A	84.424	15391	114,231
Special Education - Basic Local Assistance	84.027	13379	592,160
State Charter School Facilities Incentive Grants	84.242D	[1]	411,215
Total Expenditures of Federal Awards			<u>\$ 2,719,689</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2019

ORGANIZATION

MERF operates ten schools in California under ten 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, 2019, the Foundations 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 County Office of Education	June 30, 2022	6-12	590
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2022	6-12	437
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2022	6-12	510
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2023	6-12	176
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2023	6-12	248
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2024	6-8	156
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2024	K-5	291
Magnolia Science Academy 8	1236	Los Angeles Unified School District	June 30, 2020	6-8	471
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2020	6-8	674
Magnolia Science Academy San Diego	698	San Diego Unified School District	June 30, 2024	K-12	404

See accompanying note to supplementary information.

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE, *Continued*
FOR THE YEAR ENDED JUNE 30, 2019

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Assets	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Current Assets							
Cash	\$ 2,681,572	\$ 2,939,938	\$ 1,158,184	\$ 991,716	\$ 1,475,263	\$ 1,987,156	\$ 1,719,960
Accounts receivable	63,475	1,273,139	576,220	777,695	290,221	337,071	256,078
Intracompany receivable	1,412,686	849,433	153,812	6,759	46,259	1,026	8,002
Prepaid expenses and other current assets	14,665	2,059	1,091	613	377	-	9,714
Total Current Assets	<u>4,172,398</u>	<u>5,064,569</u>	<u>1,889,307</u>	<u>1,776,783</u>	<u>1,812,120</u>	<u>2,325,253</u>	<u>1,993,754</u>
Non-Current Assets							
Investments in LLC	-	161,923	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-
Bond issue costs, net	-	-	-	-	-	-	-
Security deposit	-	-	-	-	-	-	-
Property and equipment	134,513	1,114,916	410,237	267,427	178,296	205,518	158,971
Less: accumulated depreciation	(117,895)	(361,701)	(364,182)	(245,203)	(147,493)	(141,155)	(148,877)
Total Non-Current Assets	<u>16,618</u>	<u>915,138</u>	<u>46,055</u>	<u>22,224</u>	<u>30,803</u>	<u>64,363</u>	<u>10,094</u>
Total Assets	<u>\$ 4,189,016</u>	<u>\$ 5,979,707</u>	<u>\$ 1,935,362</u>	<u>\$ 1,799,007</u>	<u>\$ 1,842,923</u>	<u>\$ 2,389,616</u>	<u>\$ 2,003,848</u>
Liabilities							
Current Liabilities							
Accounts payable	\$ 301,673	\$ 1,002,872	\$ 863,200	\$ 730,924	\$ 518,992	\$ 496,724	\$ 175,226
Deferred revenue	-	13,462	11,351	11,368	1,136	5,090	12,223
Intracompany payable	2,148,075	101,215	44,258	9,705	66	105,795	2,110
Current portion of long-term debt	-	-	-	-	-	-	-
Total Current Liabilities	<u>2,449,748</u>	<u>1,117,549</u>	<u>918,809</u>	<u>751,997</u>	<u>520,194</u>	<u>607,609</u>	<u>189,559</u>
Long-Term Obligations							
Non-current portion of long-term debt	-	-	-	-	-	-	-
Total Liabilities	<u>2,449,748</u>	<u>1,117,549</u>	<u>918,809</u>	<u>751,997</u>	<u>520,194</u>	<u>607,609</u>	<u>189,559</u>
Net Assets							
Without donor restrictions							
Designated	-	721,439	284,380	362,240	-	284,969	217,955
Unrestricted	1,739,268	4,140,719	732,173	684,770	1,322,729	1,497,038	1,596,334
Total Net Assets	<u>1,739,268</u>	<u>4,862,158</u>	<u>1,016,553</u>	<u>1,047,010</u>	<u>1,322,729</u>	<u>1,782,007</u>	<u>1,814,289</u>
Total Liabilities and Net Assets	<u>\$ 4,189,016</u>	<u>\$ 5,979,707</u>	<u>\$ 1,935,362</u>	<u>\$ 1,799,007</u>	<u>\$ 1,842,923</u>	<u>\$ 2,389,616</u>	<u>\$ 2,003,848</u>

See accompanying note to supplementary information.

<u>MSA 7</u>	<u>MSA Bell</u>	<u>MSA Santa Ana</u>	<u>MSA San Diego</u>	<u>MPM Inc. / LLC</u>	<u>Elimination</u>	<u>2019 Total</u>	<u>2018 Total</u>
\$ 1,314,944	\$ 2,529,656	\$ 882,408	\$ 235,322	\$ 3,090,351	\$ -	\$ 21,006,470	\$ 22,600,493
409,828	536,075	217,899	133,499	-	-	4,871,200	4,781,620
-	1,811,055	618,358	116,401	-	(5,023,791)	-	-
23,786	233	635	291	-	-	53,464	1,027,408
<u>1,748,558</u>	<u>4,877,019</u>	<u>1,719,300</u>	<u>485,513</u>	<u>3,090,351</u>	<u>(5,023,791)</u>	<u>25,931,134</u>	<u>28,409,521</u>
-	-	75,554	198,191	-	(435,668)	-	-
-	-	-	106,607	2,299,814	-	2,406,421	4,659,987
-	-	-	-	998,413	-	998,413	1,076,199
-	-	-	-	-	-	-	43,117
290,998	353,397	22,622,538	667,450	28,957,607	-	55,361,868	46,055,549
(122,900)	(253,100)	(1,651,959)	(387,776)	(928,936)	-	(4,871,177)	(4,120,699)
<u>168,098</u>	<u>100,297</u>	<u>21,046,133</u>	<u>584,472</u>	<u>31,326,898</u>	<u>(435,668)</u>	<u>53,895,525</u>	<u>47,714,153</u>
<u>\$ 1,916,656</u>	<u>\$ 4,977,316</u>	<u>\$ 22,765,433</u>	<u>\$ 1,069,985</u>	<u>\$ 34,417,249</u>	<u>\$ (5,459,459)</u>	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>
\$ 359,410	\$ 721,283	\$ 413,797	\$ 386,200	\$ -	\$ -	\$ 5,970,301	\$ 3,232,385
1,859	20,038	664	-	2,290,659	-	2,367,850	2,290,659
12,746	434	2,375,621	223,766	-	(5,023,791)	-	-
-	-	322,596	-	620,000	-	942,596	901,166
<u>374,015</u>	<u>741,755</u>	<u>3,112,678</u>	<u>609,966</u>	<u>2,910,659</u>	<u>(5,023,791)</u>	<u>9,280,747</u>	<u>6,424,210</u>
-	-	12,124,245	151,806	30,075,000	-	42,351,051	42,788,502
<u>374,015</u>	<u>741,755</u>	<u>15,236,923</u>	<u>761,772</u>	<u>32,985,659</u>	<u>(5,023,791)</u>	<u>51,631,798</u>	<u>49,212,712</u>
9,783	-	272,871	237,447	-	-	2,391,084	2,443,468
1,532,858	4,235,561	7,255,639	70,766	1,431,590	(435,668)	25,803,777	24,467,494
<u>1,542,641</u>	<u>4,235,561</u>	<u>7,528,510</u>	<u>308,213</u>	<u>1,431,590</u>	<u>(435,668)</u>	<u>28,194,861</u>	<u>26,910,962</u>
<u>\$ 1,916,656</u>	<u>\$ 4,977,316</u>	<u>\$ 22,765,433</u>	<u>\$ 1,069,985</u>	<u>\$ 34,417,249</u>	<u>\$ (5,459,459)</u>	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>

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

CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2019

	<u>MERF</u>	<u>MSA</u>	<u>MSA 2</u>	<u>MSA 3</u>	<u>MSA 4</u>	<u>MSA 5</u>	<u>MSA 6</u>
Revenues							
Local Control Funding Formula	\$ -	\$ 6,399,704	\$ 4,605,903	\$ 5,190,998	\$ 1,797,472	\$ 2,519,073	\$ 1,496,543
Federal revenue	-	663,788	297,621	253,403	107,915	136,309	98,528
State revenue	-	1,863,464	736,395	925,719	263,369	239,173	321,358
Local revenue	5,864,094	323,831	74,393	66,432	83,494	13,837	5,441
Rental income	-	-	-	-	-	-	-
Total Revenues	<u>5,864,094</u>	<u>9,250,787</u>	<u>5,714,312</u>	<u>6,436,552</u>	<u>2,252,250</u>	<u>2,908,392</u>	<u>1,921,870</u>
Expenses							
Program services	1,492,035	5,181,054	3,662,733	3,762,174	1,604,257	2,130,052	1,242,399
Management and general	3,426,752	4,019,419	2,152,256	2,691,085	795,778	891,665	469,080
Total Expenses	<u>4,918,787</u>	<u>9,200,473</u>	<u>5,814,989</u>	<u>6,453,259</u>	<u>2,400,035</u>	<u>3,021,717</u>	<u>1,711,479</u>
Change in Net Assets	945,307	50,314	(100,677)	(16,707)	(147,785)	(113,325)	210,391
Net Assets, Beginning of Year	<u>793,961</u>	<u>4,811,844</u>	<u>1,117,230</u>	<u>1,063,717</u>	<u>1,470,514</u>	<u>1,895,332</u>	<u>1,603,898</u>
Net Assets, End of Year	<u>\$ 1,739,268</u>	<u>\$ 4,862,158</u>	<u>\$ 1,016,553</u>	<u>\$ 1,047,010</u>	<u>\$ 1,322,729</u>	<u>\$ 1,782,007</u>	<u>\$ 1,814,289</u>

See accompanying note to supplementary information.

MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	Elimination	2019 Total	2018 Total
\$ 2,764,875	\$ 4,646,128	\$ 6,767,105	\$ 2,946,503	\$ -	\$ -	\$ 39,134,304	\$ 36,259,514
314,706	334,005	415,188	107,361	-	-	2,728,824	3,851,301
796,108	750,585	981,462	544,317	-	-	7,421,950	8,196,747
56,165	31,869	74,339	93,070	116,832	(6,080,824)	722,973	1,528,298
-	-	-	-	2,849,864	(2,849,864)	-	-
<u>3,931,854</u>	<u>5,762,587</u>	<u>8,238,094</u>	<u>3,691,251</u>	<u>2,966,696</u>	<u>(8,930,688)</u>	<u>50,008,051</u>	<u>49,835,860</u>
2,246,312	3,331,289	5,241,451	2,738,687	227,260	-	32,859,703	27,967,973
<u>1,641,097</u>	<u>2,279,454</u>	<u>2,970,426</u>	<u>1,797,437</u>	<u>1,660,688</u>	<u>(8,930,688)</u>	<u>15,864,449</u>	<u>16,435,335</u>
<u>3,887,409</u>	<u>5,610,743</u>	<u>8,211,877</u>	<u>4,536,124</u>	<u>1,887,948</u>	<u>(8,930,688)</u>	<u>48,724,152</u>	<u>44,403,308</u>
44,445	151,844	26,217	(844,873)	1,078,748	-	1,283,899	5,432,552
<u>1,498,196</u>	<u>4,083,717</u>	<u>7,502,293</u>	<u>1,153,086</u>	<u>352,842</u>	<u>(435,668)</u>	<u>26,910,962</u>	<u>21,478,410</u>
<u>\$ 1,542,641</u>	<u>\$ 4,235,561</u>	<u>\$ 7,528,510</u>	<u>\$ 308,213</u>	<u>\$ 1,431,590</u>	<u>\$ (435,668)</u>	<u>\$ 28,194,861</u>	<u>\$ 26,910,962</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,681,572	\$ 475,054
Accounts receivable	63,475	-
Intercompany receivable	1,412,686	2,263,534
Prepaid expenses and other current assets	14,665	419,062
Total Current Assets	<u>4,172,398</u>	<u>3,157,650</u>
Non-Current Assets		
Security deposit	-	16,000
Property and equipment	134,513	134,513
Less: accumulated depreciation	(117,895)	(117,723)
Total Non-Current Assets	<u>16,618</u>	<u>32,790</u>
Total Assets	<u>\$ 4,189,016</u>	<u>\$ 3,190,440</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 301,673	\$ 296,731
Intercompany payable	2,148,075	2,099,748
Total Liabilities	<u>2,449,748</u>	<u>2,396,479</u>
Net Assets		
Without donor restrictions		
Unrestricted	<u>1,739,268</u>	<u>793,961</u>
Total Liabilities and Net Assets	<u>\$ 4,189,016</u>	<u>\$ 3,190,440</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local revenue	\$ 5,864,094	\$ 6,803,273
Expenses		
Program services	1,492,035	2,482,099
Management and general	3,426,752	2,760,435
Total Expenses	<u>4,918,787</u>	<u>5,242,534</u>
Change in Net Assets	945,307	1,560,739
Net Assets (Deficit), Beginning of Year	793,961	(766,778)
Net Assets, End of Year	<u>\$ 1,739,268</u>	<u>\$ 793,961</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 945,307	\$ 1,560,739
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	172	933
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(63,475)	463
Decrease in intercompany receivable	850,848	535,324
(Increase) Decrease in prepaid expenses	404,397	(1,351)
Decrease in security deposits	16,000	-
Increase (Decrease) in accounts payable	4,942	(146,773)
Increase (Decrease) in intercompany payable	48,327	(1,454,452)
(Decrease) in deferred revenue	-	(72,500)
Net Cash Provided by Operating Activities	<u>2,206,518</u>	<u>422,383</u>
Net Increase in Cash	2,206,518	422,383
Cash, Beginning of Year	475,054	52,671
Cash, End of Year	<u>\$ 2,681,572</u>	<u>\$ 475,054</u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 521,064	\$ 1,838,289	\$ 2,359,353
Employee benefits	328,068	-	328,068
Payroll taxes	349,973	251,565	601,538
Total Personnel	<u>1,199,105</u>	<u>2,089,854</u>	<u>3,288,959</u>
Operating			
Fees for services	-	357,530	357,530
Advertising and promotions	-	27,581	27,581
Office expenses	245	11,658	11,903
Information technology	106,471	-	106,471
Occupancy	-	182,901	182,901
Travel	-	58,386	58,386
Conferences and meeting	-	3,000	3,000
Depreciation	172	-	172
Insurance	-	37,541	37,541
Other expenses	20,437	658,301	678,738
Capital outlay	23,259	-	23,259
Instructional materials	122,079	-	122,079
Nutrition	20,267	-	20,267
Total Operating	<u>292,930</u>	<u>1,336,898</u>	<u>1,629,828</u>
Total Functional Expenses	<u>\$ 1,492,035</u>	<u>\$ 3,426,752</u>	<u>\$ 4,918,787</u>

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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.

The following schedule provides reconciliation between revenues reported on the Statement of Activities and Changes in Net Assets, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds which have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the net assets

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 2,728,824
Medi-Cal Billing Option	93.778	(9,135)
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,719,689</u>

Local Education Agency Organization Structure

This schedule provides information about the Foundations 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, MSA Santa Ana, MSA San Diego, and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of MERF and are presented on the accrual basis of accounting.

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 Educational & Research Foundation
(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 Educational & Research Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation's 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's (the Charter) major Federal programs for the year ended June 30, 2019. Magnolia Educational & Research Foundation'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 Magnolia Educational & Research Foundation'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 Magnolia Educational & Research Foundation'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 Magnolia Educational & Research Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Magnolia Educational & Research Foundation 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, 2019.

Report on Internal Control over Compliance

Management of Magnolia Educational & Research Foundation 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 Magnolia Educational & Research Foundation'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 Magnolia Educational & Research Foundation'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 a 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
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

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>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance ?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year.

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, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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'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's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA, as of June 30, 2019 and 2018, 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.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,939,938	\$ 2,044,087
Accounts receivable	1,273,139	1,349,175
Intercompany receivable	849,433	588,400
Prepaid expenses and other current assets	2,059	260,679
Total Current Assets	<u>5,064,569</u>	<u>4,242,341</u>
Non-Current Assets		
Investments in LLC	161,923	161,923
Property and equipment	1,114,916	1,489,734
Less: accumulated depreciation	<u>(361,701)</u>	<u>(665,047)</u>
Total Non-Current Assets	<u>915,138</u>	<u>986,610</u>
Total Assets	<u>\$ 5,979,707</u>	<u>\$ 5,228,951</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,002,872	\$ 267,565
Deferred revenue	13,462	-
Intercompany payable	<u>101,215</u>	<u>149,542</u>
Total Liabilities	<u>1,117,549</u>	<u>417,107</u>
Net Assets		
Without donor restrictions		
Designated	721,439	365,716
Unrestricted	<u>4,140,719</u>	<u>4,446,128</u>
Total Net Assets	<u>4,862,158</u>	<u>4,811,844</u>
Total Liabilities and Net Assets	<u>\$ 5,979,707</u>	<u>\$ 5,228,951</u>

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 6,399,704	\$ 5,502,695
Federal revenue	663,788	980,659
State revenue	1,863,464	1,589,193
Local revenue	<u>323,831</u>	<u>175,333</u>
Total Revenues	<u>9,250,787</u>	<u>8,247,880</u>
Expenses		
Program services	5,181,054	3,559,737
Management and general	<u>4,019,419</u>	<u>3,262,574</u>
Total Expenses	<u>9,200,473</u>	<u>6,822,311</u>
Change in Net Assets	50,314	1,425,569
Net Assets, Beginning of Year	<u>4,811,844</u>	<u>3,386,275</u>
Net Assets, End of Year	<u>\$ 4,862,158</u>	<u>\$ 4,811,844</u>

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 50,314	\$ 1,425,569
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	71,472	6,361
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	76,036	(470,449)
(Increase) in intercompany receivable	(261,033)	(115,468)
Decrease in prepaid expenses	258,620	20,186
Increase (Decrease) in accounts payable	735,307	(94,280)
(Decrease) in intercompany payable	(48,327)	(85,783)
Increase in deferred revenue	13,462	-
Net Cash Provided by Operating Activities	<u>895,851</u>	<u>686,136</u>
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(161,923)
Proceeds from sale of property and equipment	-	3,008,448
Net Cash Provided by Investing Activities	<u>-</u>	<u>2,846,525</u>
Cash Flows From Financing Activities		
Loan payment	-	(2,800,000)
Net Increase in Cash	895,851	732,661
Cash, Beginning of Year	<u>2,044,087</u>	<u>1,311,426</u>
Cash, End of Year	<u>\$ 2,939,938</u>	<u>\$ 2,044,087</u>

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 2,851,586	\$ 668,816	\$ 3,520,402
Employee benefits	442,998	-	442,998
Payroll taxes	894,031	173,949	1,067,980
Total Personnel	<u>4,188,615</u>	<u>842,765</u>	<u>5,031,380</u>
Operating			
Fees for services	-	336,798	336,798
Advertising and promotions	-	22,719	22,719
Office expenses	48,826	41,534	90,360
Information technology	11,538	-	11,538
Occupancy	-	1,643,613	1,643,613
Travel	-	9,608	9,608
Depreciation	71,472	-	71,472
Insurance	-	41,001	41,001
Other expenses	84,923	83,477	168,400
Capital outlay	532,510	-	532,510
Special Education Local Plan Area fees	41,980	-	41,980
Instructional materials	116,643	-	116,643
Nutrition	20,900	-	20,900
District oversight fees	63,647	-	63,647
Management fees	-	997,904	997,904
Total Operating	<u>992,439</u>	<u>3,176,654</u>	<u>4,169,093</u>
Total Functional Expenses	<u>\$ 5,181,054</u>	<u>\$ 4,019,419</u>	<u>\$ 9,200,473</u>

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (MSA) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 590 students. MSA 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 County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between MSA.

Prepaid Expenses

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

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The MSA reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. MSA's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The MSA reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the MSA are derived principally from state and federal sources. The MSA receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MSA for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the MSA's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The MSA has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, MSA adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 3,386,275	\$ (3,386,275)	\$ -
Net assets without donor restrictions		3,386,275	3,386,275
Net assets, end of the year			
Unrestricted	\$ 4,811,844	\$ (4,811,844)	\$ -
Net assets without donor restrictions	-	4,811,844	4,811,844

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	<u>\$ 2,939,938</u>	<u>\$ 3,000,038</u>	<u>\$ 2,044,087</u>	<u>\$ 2,188,763</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA had a balance of \$2,958,185 and \$2,153,528, respectively, in excess of FDIC insured limits. Management believes MSA is not exposed to any significant risk related to cash.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 2,939,938	\$ 2,044,087
Accounts receivable	1,273,139	1,349,175
Prepaid expenses and other assets	2,059	260,679
Intercompany receivables	849,433	588,400
Financial Assets, at year end	<u>5,064,569</u>	<u>4,242,341</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(721,439)</u>	<u>(365,716)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,343,130</u></u>	<u><u>\$ 3,876,625</u></u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Local Control Funding Formula	\$ 584,926	\$ 388,547
Federal receivables	98,959	160,149
State receivables	463,753	748,648
Lottery	32,440	51,831
Local receivables	93,061	-
	<u><u>\$ 1,273,139</u></u>	<u><u>\$ 1,349,175</u></u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA 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, 2019 and 2018, MSA had an intercompany receivable balance of \$849,433 and \$588,400, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 2,059	\$ 260,679

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Building improvements	\$ -	\$ 374,818
Computers and equipment	422,141	422,141
Work in progress	692,775	692,775
Subtotal	1,114,916	1,489,734
Less: accumulated depreciation	(361,701)	(665,047)
Total property and equipment	\$ 753,215	\$ 824,687

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 39,382	\$ 94,591
Vendor payable	963,490	64,974
Due to other agencies	-	108,000
	\$ 1,002,872	\$ 267,565

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA 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, 2019 and 2018, MSA had an intercompany payable balance of \$101,215 and \$149,542, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 - LONG-TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from Magnolia Science Academy (MSA) by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019 and 2018, MSA had a 1.48 and 2.56, respectively, Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

2019		2018	
Debt Service Coverage		Debt Service Coverage	
Net Income	\$ 50,314	Net Income	\$ 1,425,569
Depreciation	71,472	Depreciation	6,361
Management fees (50%)	498,952	Management fees (50%)	547,935
Rent	1,287,278	Rent	916,260
Income Available for Coverage	1,908,016	Income Available for Coverage	2,896,125
Debt Service	1,287,278	Debt Service	916,260
Debt Service Coverage	1.48	Debt Service Coverage	3.16
Limit	1.10	Limit	1.10
Compliance	Yes	Compliance	Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019 and 2018, MSA had 113 days cash on hand and was in compliance with the 45 days required.

2019		2018	
Days Cash on Hand		Days Cash on Hand	
Total Expenses	\$ 4,169,093	Total Expenses	\$ 3,262,574
Depreciation	71,472	Depreciation	6,361
Cash Expenses	4,097,621	Cash Expenses	3,256,213
Expense/Day	11,226	Expense/Day	8,921
Cash	2,939,938	Cash	2,044,087
Days Cash on Hand	262	Days Cash on Hand	229
Limit	45	Limit	45
Compliance	Yes	Compliance	Yes

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 11 – FACILITY USE LEASE

Magnolia Science Academy entered into a lease agreement with MPM Sherman Way LLC, a California limited liability company on June 1, 2014 and August 1, 2017 for the refinancing of the acquisition and construction of charter school facilities under the Series 2014 and 2017 Loans for property located at 18238 Sherman Way, Reseda, California. The 2014 and 2017 loans are in relations to California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A and Series 2014B (Taxable) and (Magnolia Public Schools- Obligated Group) Draw Down Series 2017, respectively, the use payments shall be paid in 12 equal monthly installments.

Year Ending June 30,	Facility Lease Payments
2020	\$ 1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
Thereafter	27,255,683
Total	<u>\$ 33,754,437</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

MSA is part of the Foundation. MSA pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal years ended June 30, 2019 and 2018, were \$997,904 and \$1,095,870, respectively.

NOTE 13 - NET ASSETS

Net assets at June 30, 2019, consisted of the following:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 721,439	\$ 365,716
Unrestricted	4,140,719	4,446,128
Total Net Assets without Donor Restrictions	<u>\$ 4,862,158</u>	<u>\$ 4,811,844</u>

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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).

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 MSA chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 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

MSA 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

MSA 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)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA's total contributions were \$384,044 and \$404,295, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly 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)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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. MSA 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, 2019 and 2018, are presented above and the total Charter School contributions were \$76,394 and \$73,135, respectively.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$421,022 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$43,171 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 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 MSA and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 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 MSA are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA made payments of \$66,932 and \$61,724, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, MSA had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - CONTINGENCIES

Grants

MSA 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time". 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 is not currently a party to any legal proceedings.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 17 - SUBSEQUENT EVENTS

MSA's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy (Charter Number 0438) was granted on December 20, 2016, by the Los Angeles County of Education. MSA operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	128.05	127.53
Seventh and eighth	167.68	166.71
Ninth through twelfth	271.84	271.74
Total Regular ADA	<u>567.57</u>	<u>565.98</u>
Classroom based ADA		
Fourth through sixth	128.05	127.53
Seventh and eighth	167.68	166.71
Ninth through twelfth	271.84	271.74
Total Classroom based ADA	<u>567.57</u>	<u>565.98</u>

MSA did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	64,953	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		64,953	181	N/A	Complied
Grade 8		64,953	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,953	181	N/A	Complied
Grade 10		64,953	181	N/A	Complied
Grade 11		64,953	181	N/A	Complied
Grade 12		64,953	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 4,774,078
Increase (Decrease) in:	
Cash and cash equivalents	(34,274)
Accounts receivable	748,218
(Increase) in:	
Accounts payable	(612,402)
Deferred revenue	(13,462)
Net Assets, June 30, 2019, Audited Financial Statement	<u>\$ 4,862,158</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA. 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 MSA and whether MSA complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

MSA must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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
(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 Magnolia Science Academy (MSA) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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

Rancho Cucamonga, California
_____, 2019

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 (MSA) compliance with the types of compliance requirements as identified in the *2018-2019 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's State government programs as noted below for the year ended June 30, 2019.

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'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 *2018-2019 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'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's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 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, 2019.

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

	Procedures Performed
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
Ratio 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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 does not operate a before school program within the After School Education and Safety Program; therefore, we did not perform any related procedures for the before school program.

MSA does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA did not operate 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
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year.

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, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 2'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 2's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 2, as of June 30, 2019 and 2018, 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.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 2's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,158,184	\$ 1,094,844
Accounts receivable	576,220	521,854
Intercompany receivable	153,812	62,177
Prepaid expenses and other current assets	1,091	87,263
Total Current Assets	<u>1,889,307</u>	<u>1,766,138</u>
Non-Current Assets		
Property and equipment	410,237	410,237
Less: accumulated depreciation	<u>(364,182)</u>	<u>(294,698)</u>
Total Non-Current Assets	<u>46,055</u>	<u>115,539</u>
Total Assets	<u>\$ 1,935,362</u>	<u>\$ 1,881,677</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 863,200	\$ 729,383
Deferred revenue	11,351	-
Intercompany payable	<u>44,258</u>	<u>35,064</u>
Total Liabilities	<u>918,809</u>	<u>764,447</u>
Net Assets		
Without donor restrictions		
Designated	284,380	834,378
Unrestricted	<u>732,173</u>	<u>282,852</u>
Total Net Assets	<u>1,016,553</u>	<u>1,117,230</u>
Total Liabilities and Net Assets	<u>\$ 1,935,362</u>	<u>\$ 1,881,677</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
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 4,605,903	\$ 4,472,148
Federal revenue	297,621	489,784
State revenue	736,395	825,899
Local revenue	74,393	105,589
Total Revenues	<u>5,714,312</u>	<u>5,893,420</u>
Expenses		
Program services	3,662,733	3,207,945
Management and general	2,152,256	2,465,331
Total Expenses	<u>5,814,989</u>	<u>5,673,276</u>
Change in Net Assets	(100,677)	220,144
Net Assets, Beginning of Year	<u>1,117,230</u>	<u>897,086</u>
Net Assets, End of Year	<u>\$ 1,016,553</u>	<u>\$ 1,117,230</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, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (100,677)	\$ 220,144
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	69,484	48,000
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(54,366)	(149,165)
(Increase) Decrease in intercompany receivable	(91,635)	81,076
(Increase) Decrease in prepaid expenses	86,172	(65,461)
Increase in accounts payable	133,817	175,388
Increase in intercompany payable	9,194	19,578
Increase in deferred revenue	11,351	-
Net Cash Provided by Operating Activities	<u>63,340</u>	<u>329,560</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>-</u>	<u>(15,448)</u>
Net Increase in Cash	63,340	314,112
Cash, Beginning of Year	<u>1,094,844</u>	<u>780,732</u>
Cash, End of Year	<u>\$ 1,158,184</u>	<u>\$ 1,094,844</u>

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 2,158,383	\$ 510,301	\$ 2,668,684
Employee benefits	354,709	-	354,709
Payroll taxes	624,621	132,551	757,172
Total Personnel	<u>3,137,713</u>	<u>642,852</u>	<u>3,780,565</u>
Operating			
Fees for services	-	276,798	276,798
Advertising and promotions	-	15,208	15,208
Office expenses	33,600	11,417	45,017
Information technology	14,020	-	14,020
Occupancy	-	185,850	185,850
Travel	-	11,608	11,608
Conferences and meeting	-	555	555
Depreciation	69,484	-	69,484
Insurance	-	23,471	23,471
Other expenses	73,680	80,146	153,826
Capital outlay	126,102	-	126,102
Special Education Local Plan Area fees	36,739	-	36,739
Instructional materials	119,942	-	119,942
Nutrition	5,468	-	5,468
District oversight fees	45,985	-	45,985
Management fees	-	904,351	904,351
Total Operating	<u>525,020</u>	<u>1,509,404</u>	<u>2,034,424</u>
Total Functional Expenses	<u>\$ 3,662,733</u>	<u>\$ 2,152,256</u>	<u>\$ 5,814,989</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, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (MSA 2) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 437 students. MSA 2 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. Los Angeles County Office of Education approved a new charter agreement in 2018 for a period of five years ending in 2022. MSA 2 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

MSA 2 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 2's Charter School Management Organization (CMO) that manages MSA 2's nonacademic operation such as financial, general administration, and human resource management. MSA 2'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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the MSA 2's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

MSA 2 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between MSA 2.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 2 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

MSA 2 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. MSA 2's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 2 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 2 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 2 are derived principally from state and federal sources. MSA 2 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2019

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Income Taxes

MSA 2 is a California 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. 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 2015 and forward may be audited by regulatory agencies; however, MSA 2 is not aware of any such actions at this time.

MSA 2 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 2 to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 897,086	\$ (897,086)	\$ -
Net assets without donor restrictions		897,086	897,086
Net assets, end of the year			
Unrestricted	\$ 1,117,230	\$ (1,117,230)	\$ -
Net assets without donor restrictions	-	1,117,230	1,117,230

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 1,158,184	\$ 1,202,538	\$ 1,094,844	\$ 1,262,083

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 2 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 2 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 2 had \$1,158,184 and \$1,241,766, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	\$ 1,158,184	\$ 1,094,844
Accounts receivable	576,220	521,854
Prepaid expenses and other assets	1,091	87,263
Intercompany receivables	153,812	62,177
Financial Assets, at year end	1,889,307	1,766,138
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(284,380)	(834,378)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,604,927	\$ 931,760

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 329,832	\$ 280,263
Federal receivables	78,352	159,670
State receivables	114,600	37,137
Lottery	27,143	43,499
Local receivables	26,293	1,285
	<u>\$ 576,220</u>	<u>\$ 521,854</u>

NOTE 5 – INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 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, 2019 and 2018, MSA 2 had an intercompany receivable balance of \$153,812 and \$62,177, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 1,091	\$ 87,263

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Building improvements	\$ 10,061	\$ 10,061
Computers and equipment	379,284	379,284
Work in progress	20,892	20,892
Subtotal	410,237	410,237
Less: accumulated depreciation	(364,182)	(294,698)
Total property and equipment	<u>\$ 46,055</u>	<u>\$ 115,539</u>

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 161,622	\$ 139,121
Vendor payable	701,578	260,848
Due to other agencies	-	329,414
	<u>\$ 863,200</u>	<u>\$ 729,383</u>

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 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, 2019 and 2018, MSA 2 had an intercompany payable balance of \$44,258 and \$35,064, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 2 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 2 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, 2019 and 2018, was \$125,833 and \$327,715, respectively.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 2 is part of the Foundation. MSA 2 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, 2019 and 2018, were \$904,351 and \$993,132, respectively.

NOTE 12 - NET ASSETS

Net assets consist of the following at June 30, 2019:

	<u>2019</u>	<u>2018</u>
Net Assets without Donor Restrictions		
Designated for State programs	\$ 284,380	\$ 834,378
Unrestricted	732,173	282,852
Total Net Assets without Donor Restrictions	<u>\$ 1,016,553</u>	<u>\$ 1,117,230</u>

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 MSA 2 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 2 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

MSA 2 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.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

MSA 2 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, 2019, 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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)**NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2019

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, 2019 and 2018, are presented above and MSA 2's total contributions were \$313,658 and \$266,980, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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. MSA 2 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, 2019 and 2018, are presented above and the total Charter School contributions were \$75,915 and \$59,003, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$280,028 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$22,925 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 14 - CONTINGENCIES

Grants

MSA 2 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time." Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 2 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 2 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 MSA 2 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 2 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 MSA 2 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 2 made payments of \$44,820 and \$39,165, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 2 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 2's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 2 (Charter Number 0906) was granted on July 1, 2002, by the Los Angeles Unified School District. MSA 2 operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	90.59	90.17
Seventh and eighth	157.72	156.50
Ninth through twelfth	167.11	166.38
Total Regular ADA	<u>415.42</u>	<u>413.05</u>
Classroom based ADA		
Fourth through sixth	90.59	90.17
Seventh and eighth	157.72	156.50
Ninth through twelfth	167.11	166.38
Total Classroom based ADA	<u>415.42</u>	<u>413.05</u>

MSA 2 does not operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	64,934	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		64,934	181	N/A	Complied
Grade 8		64,934	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,934	181	N/A	Complied
Grade 10		64,934	181	N/A	Complied
Grade 11		64,934	181	N/A	Complied
Grade 12		64,934	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 1,319,745
Increase (Decrease) in:	
Accounts receivable	(98,360)
Intercompany receivable	151,393
(Increase) in:	
Accounts payable	(303,036)
Deferred revenue	(11,351)
Intercompany payable	<u>(41,838)</u>
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 1,016,553</u></u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 2. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 2 and whether MSA 2 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA 2'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 MSA 2'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 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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 *2018-2019 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, 2019.

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 2'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 *2018-2019 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 2'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 2's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 2 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 2'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
Ratio 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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 2 does not operate a Before or After School Program within the After/Before School Education and Safety Program; therefore, we did not perform and related procedures.

MSA 2 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Finding for Non Classroom-Based Instruction.

MSA 2 did not receive funding for Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2019

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, 2019

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, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year.

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

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 3'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 3's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 3, as of June 30, 2019 and 2018, 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.

Other Matters***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 3's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 991,716	\$ 740,137
Accounts receivable	777,695	440,748
Intercompany receivable	6,759	6,604
Prepaid expenses and other current assets	613	1,743
Total Current Assets	<u>1,776,783</u>	<u>1,189,232</u>
Non-Current Assets		
Property and equipment	267,427	267,427
Less: accumulated depreciation	(245,203)	(181,398)
Total Non-Current Assets	<u>22,224</u>	<u>86,029</u>
Total Assets	<u>\$ 1,799,007</u>	<u>\$ 1,275,261</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 730,924	\$ 208,639
Deferred revenue	11,368	-
Intercompany payable	9,705	2,905
Total Liabilities	<u>751,997</u>	<u>211,544</u>
Net Assets		
Without donor restrictions		
Designated	362,240	788,750
Unrestricted	684,770	274,967
Total Net Assets	<u>1,047,010</u>	<u>1,063,717</u>
Total Liabilities and Net Assets	<u>\$ 1,799,007</u>	<u>\$ 1,275,261</u>

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

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

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 5,190,998	\$ 4,459,164
Federal revenue	253,403	444,672
State revenue	925,719	925,197
Local revenue	66,432	84,847
Total Revenues	<u>6,436,552</u>	<u>5,913,880</u>
Expenses		
Program services	3,762,174	3,059,187
Management and general	2,691,085	2,422,937
Total Expenses	<u>6,453,259</u>	<u>5,482,124</u>
Change in Net Assets	(16,707)	431,756
Net Assets, Beginning of Year	<u>1,063,717</u>	<u>631,961</u>
Net Assets, End of Year	<u>\$ 1,047,010</u>	<u>\$ 1,063,717</u>

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

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

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (16,707)	\$ 431,756
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	63,804	22,407
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(336,947)	(123,130)
(Increase) Decrease in intercompany receivable	(154)	84,758
Decrease in prepaid expenses	1,130	318,762
Increase (Decrease) in accounts payable	522,285	(22,140)
(Decrease) in intercompany payable	6,800	(110,351)
Increase in deferred revenue	11,368	-
Net Cash Provided by Operating Activities	<u>251,579</u>	<u>602,062</u>
Cash Flows From Investing Activities		
Capital expenditures	-	(40,554)
Net Increase in Cash	251,579	561,508
Cash, Beginning of Year	740,137	178,629
Cash, End of Year	<u>\$ 991,716</u>	<u>\$ 740,137</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 3
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 2,258,329	\$ 692,282	\$ 2,950,611
Employee benefits	370,288	-	370,288
Payroll taxes	571,448	197,654	769,102
Total Personnel	<u>3,200,065</u>	<u>889,936</u>	<u>4,090,001</u>
Operating			
Fees for services	-	338,321	338,321
Advertising and promotions	-	8,007	8,007
Office expenses	51,694	8,548	60,242
Information technology	13,229	-	13,229
Occupancy	-	350,943	350,943
Travel	-	3,959	3,959
Depreciation	63,804	-	63,804
Insurance	-	22,212	22,212
Other expenses	170,589	71,255	241,844
Capital outlay	54,021	-	54,021
Special Education Local Plan Area fees	71,672	-	71,672
Instructional materials	69,795	-	69,795
Nutrition	15,404	-	15,404
District oversight fees	51,901	-	51,901
Management fees	-	997,904	997,904
Total Operating	<u>562,109</u>	<u>1,801,149</u>	<u>2,363,258</u>
Total Functional Expenses	<u>\$ 3,762,174</u>	<u>\$ 2,691,085</u>	<u>\$ 6,453,259</u>

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 3

Charter school number authorized by the State: 0917

Magnolia Science Academy 3 (MSA 3) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 510 students. MSA 3 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. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA 3 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 3 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 3's Charter School Management Organization (CMO) that manages MSA 3's nonacademic operation such as financial, general administration, and human resource management. MSA 3'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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the MSA 3's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 3 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 3.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The MSA 3 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The MSA 3 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)**NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The MSA 3 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 3 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the MSA 3 are derived principally from state and federal sources. The MSA 3 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The MSA 3 receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2019**

Income Taxes

The MSA 3 is a California 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. 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 2015 and forward may be audited by regulatory agencies; however, the MSA 3 is not aware of any such actions at this time.

The MSA 3 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 3 to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MSA 3 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 631,961	\$ (631,961)	\$ -
Net assets without donor restrictions		631,961	631,961
Net assets, end of the year			
Unrestricted	\$ 1,063,717	\$ (1,063,717)	\$ -
Net assets without donor restrictions	-	1,063,717	1,063,717

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 991,716	\$ 1,227,875	\$ 740,137	\$ 855,539

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 3 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 3 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 3 had \$1,210,745 and \$841,766, respectively, in excess of insured limits.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	\$ 991,716	\$ 740,137
Accounts receivable	777,695	440,748
Prepaid expenses and other assets	613	1,743
Intercompany receivables	6,759	6,604
Financial Assets, at year end	1,776,783	1,189,232
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(362,240)	(788,750)
Financial assets available to meet cash needs for general expenditures within one year	\$ 1,414,543	\$ 400,482

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 452,225	\$ 202,714
Federal receivables	121,148	145,084
State receivables	100,965	46,855
Lottery	27,500	45,141
Local receivables	75,857	954
	<u>\$ 777,695</u>	<u>\$ 440,748</u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 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, 2019 and 2018, MSA 3 had an intercompany receivable balance of \$6,759 and \$6,604, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 613	\$ 1,743

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 250,814	\$ 250,814
Work in progress	16,613	16,613
Subtotal	267,427	267,427
Less: accumulated depreciation	(245,203)	(181,398)
Total property and equipment	<u>\$ 22,224</u>	<u>\$ 86,029</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 164,381	\$ 64,352
Vendor payable	566,543	77,326
Due to other agencies	-	66,961
	<u>\$ 730,924</u>	<u>\$ 208,639</u>

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 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, 2019 and 2018, MSA 3 had an intercompany payable balance of \$9,705 and \$2,905, 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 MSA 3 education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was \$320,544 and \$250,380, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 3 is part of the Foundation. MSA 3 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, 2019 and 2018, was \$997,904 and \$993,132, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 362,240	\$ 788,750
Unrestricted	684,770	274,967
Total Net Assets without Donor Restrictions	\$ 1,047,010	\$ 1,063,717

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 MSA 3 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 3 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

MSA 3 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

MSA 3 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, 2019, 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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA 3's total contributions were \$304,152 and \$223,107, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. MSA 3 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, 2019 and 2018, are presented above and the total Charter School contributions were \$106,852 and \$86,521, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$236,577 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$38,542 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 3 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 3 is not currently a party to any legal proceedings.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 3 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 MSA 3 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 3 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 MSA 3 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 3 made payments of \$48,516 and \$43,143, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 3 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 3's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 3 (Charter Number 0917) was granted on December 20, 2016, for a period of five years expiring June 30, 2022, by the Los Angeles County of Education. MSA 3 operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	73.11	72.53
Seventh and eighth	201.24	200.28
Ninth through twelfth	210.46	209.36
Total Regular ADA	<u>484.81</u>	<u>482.17</u>
Classroom based ADA		
Fourth through sixth	73.11	72.53
Seventh and eighth	201.24	200.28
Ninth through twelfth	210.46	209.36
Total Classroom based ADA	<u>484.81</u>	<u>482.17</u>

MSA 3 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)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	65,416	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		65,416	180	N/A	Complied
Grade 8		65,416	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,416	180	N/A	Complied
Grade 10		65,416	180	N/A	Complied
Grade 11		65,416	180	N/A	Complied
Grade 12		65,416	180	N/A	Complied

See accompanying note to supplementary information.

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

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	\$ 1,344,948
Increase in:	
Accounts receivable	77,111
Intercompany receivable	3,854
(Increase) in:	
Accounts payable	(360,735)
Deferred revenue	<u>(11,368)</u>
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 1,047,010</u></u>

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 3. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 3 and whether MSA 3 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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
(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 (MSA 3) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA 3'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 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*.

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 3'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 3's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA 3) compliance with the types of compliance requirements as identified in the *2018-2019 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 3's State government programs as noted below for the year ended June 30, 2019.

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 3'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 *2018-2019 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 3'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 3's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 3 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 3'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
Ratio 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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 3 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 3 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 3 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 3 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

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

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year.

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

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 4'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 4's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 4, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 4's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 4's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,475,263	\$ 1,336,770
Accounts receivable	290,221	156,659
Intercompany receivable	46,259	936
Prepaid expenses and other current assets	377	377
Total Current Assets	<u>1,812,120</u>	<u>1,494,742</u>
Non-Current Assets		
Property and equipment	178,296	178,296
Less: accumulated depreciation	(147,493)	(131,837)
Total Non-Current Assets	<u>30,803</u>	<u>46,459</u>
Total Assets	<u>\$ 1,842,923</u>	<u>\$ 1,541,201</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 518,992	\$ 70,621
Deferred revenue	1,136	-
Intercompany payable	66	66
Total Liabilities	<u>520,194</u>	<u>70,687</u>
Net Assets		
Without donor restrictions		
Designated	-	265,107
Unrestricted	1,322,729	1,205,407
Total Net Assets	<u>1,322,729</u>	<u>1,470,514</u>
Total Liabilities and Net Assets	<u>\$ 1,842,923</u>	<u>\$ 1,541,201</u>

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

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

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 1,797,472	\$ 1,713,551
Federal revenue	107,915	243,319
State revenue	263,369	444,462
Local revenue	<u>83,494</u>	<u>45,510</u>
Total Revenues	<u>2,252,250</u>	<u>2,446,842</u>
Expenses		
Program services	1,604,257	1,311,729
Management and general	<u>795,778</u>	<u>694,758</u>
Total Expenses	<u>2,400,035</u>	<u>2,006,487</u>
Change in Net Assets	(147,785)	440,355
Net Assets, Beginning of Year	<u>1,470,514</u>	<u>1,030,159</u>
Net Assets, End of Year	<u>\$ 1,322,729</u>	<u>\$ 1,470,514</u>

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

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

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (147,785)	\$ 440,355
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	15,656	15,656
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(133,562)	19,281
(Increase) Decrease in intercompany receivable	(45,323)	253,007
Decrease in prepaid expenses	-	8,567
Increase (Decrease) in accounts payable	448,371	(139,935)
(Decrease) in intercompany payable	-	(28,126)
Increase in deferred revenue	1,136	-
Net Cash Provided by Operating Activities	<u>138,493</u>	<u>568,805</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>-</u>	<u>(8,385)</u>
Net Increase in Cash	138,493	560,420
Cash, Beginning of Year	<u>1,336,770</u>	<u>776,350</u>
Cash, End of Year	<u>\$ 1,475,263</u>	<u>\$ 1,336,770</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 4
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 966,205	\$ 138,385	\$ 1,104,590
Employee benefits	141,539	-	141,539
Payroll taxes	239,455	29,648	269,103
Total Personnel	<u>1,347,199</u>	<u>168,033</u>	<u>1,515,232</u>
Operating			
Fees for services	-	271,585	271,585
Advertising and promotions	-	4,092	4,092
Office expenses	20,986	7,899	28,885
Information technology	7,103	-	7,103
Occupancy	-	207,722	207,722
Travel	-	8,599	8,599
Conferences and meeting	-	2,579	2,579
Depreciation	15,656	-	15,656
Insurance	-	8,532	8,532
Other expenses	88,196	41,894	130,090
Capital outlay	26,729	-	26,729
Special Education Local Plan Area fees	52,785	-	52,785
Instructional materials	25,907	-	25,907
Nutrition	1,772	-	1,772
District oversight fees	17,924	-	17,924
Management fees	-	74,843	74,843
Total Operating	<u>257,058</u>	<u>627,745</u>	<u>884,803</u>
Total Functional Expenses	<u>\$ 1,604,257</u>	<u>\$ 795,778</u>	<u>\$ 2,400,035</u>

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 4

Charter school number authorized by the State: 0986

Magnolia Science Academy 4 (MSA 4) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 176 students. MSA 4 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. MSA 4 was granted a five year extension through June 30, 2025. MSA 4 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 4 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 4's Charter School Management Organization (CMO) that manages MSA 4's nonacademic operation such as financial, general administration, and human resource management. MSA 4's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the MSA 4's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 4 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 4.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The MSA 4 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The MSA 4 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 4 has no net assets with donor restrictions.

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

**MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)****NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the MSA 4 are derived principally from state and federal sources. The MSA 4 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The MSA 4 is a California 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. 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 2015 and forward may be audited by regulatory agencies; however, the MSA 4 is not aware of any such actions at this time.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

The MSA 4 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 4 to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MSA 4 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Change in Accounting Policy

As of July 1, 2019, the MSA 4 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the MSA 4's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the MSA 4's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the MSA 4's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The MSA 4 has elected not to present comparative information for these amendments.

The MSA 4 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 4's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,030,159	\$ (1,030,159)	\$ -
Net assets without donor restrictions		1,030,159	1,030,159
Net assets, end of the year			
Unrestricted	\$ 1,470,514	\$ (1,470,514)	\$ -
Net assets without donor restrictions	-	1,470,514	1,470,514

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	<u>\$ 1,475,263</u>	<u>\$ 1,507,491</u>	<u>\$ 1,336,770</u>	<u>\$ 1,414,246</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 4 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 4 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 4 had \$4,486,460 and \$1,391,479, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	\$ 1,475,263	\$ 1,336,770
Accounts receivable	290,221	156,659
Prepaid expenses and other assets	377	377
Intercompany receivables	46,259	936
Financial Assets, at year end	<u>1,812,120</u>	<u>1,494,742</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>-</u>	<u>(265,107)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,812,120</u>	<u>\$ 1,229,635</u>

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 215,570	\$ 70,394
Federal receivables	9,235	49,072
State receivables	53,758	22,095
Lottery	10,595	14,885
Local receivables	1,063	213
	<u>\$ 290,221</u>	<u>\$ 156,659</u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 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, 2019 and 2018, MSA 4 had an intercompany receivable balance of \$46,259 and \$936, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	<u>\$ 377</u>	<u>\$ 377</u>

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 7 – PRORPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 164,670	\$ 164,670
Work in progress	13,626	13,626
Subtotal	178,296	178,296
Less: accumulated depreciation	(147,493)	(131,837)
Total property and equipment	<u>\$ 30,803</u>	<u>\$ 46,459</u>

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 44,279	\$ 35,401
Vendor payable	474,713	35,192
Due to other agencies	-	28
	<u>\$ 518,992</u>	<u>\$ 70,621</u>

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 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, 2019 and 2018, MSA 4 had an intercompany payable balance of \$66 and \$66, respectively, 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 MSA 4 education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was \$185,858 and \$131,925, respectively.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 4 is part of the Foundation. MSA 4 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, 2019 and 2018, was \$84,843 and \$82,190, respectively.

NOTE 12 - NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ -	\$ 265,107
Unrestricted	1,322,729	1,205,407
Total Net Assets without Donor Restrictions	\$ 1,322,729	\$ 1,470,514

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 MSA 4 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 4 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

MSA 4 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.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

MSA 4 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, 2019, 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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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

**MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)****NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019 and 2018, are presented above and MSA 4's total contributions were \$134,783 and \$90,278, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2017. This report and CalPERS audited financial information are publicly 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.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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. MSA 4 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, 2019 and 2018, are presented above and the total Charter School contributions were \$13,505 and \$11,951, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$89,782 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$5,274 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 14 - CONTINGENCIES

Grants

MSA 4 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 4 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 4 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 MSA 4 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 4 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 MSA 4 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 4 made payments of \$18,703 and \$21,542, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 4 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 4's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

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

SUPPLEMENTARY INFORMATION

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

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 4 (Charter Number 0986) was granted on May 8, 2008, by the Los Angeles Unified School District. MSA 4 operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	11.78	11.72
Seventh and eighth	26.09	25.92
Ninth through twelfth	123.78	123.38
Total Regular ADA	<u>161.65</u>	<u>161.02</u>
Classroom based ADA		
Fourth through sixth	11.78	11.72
Seventh and eighth	26.09	25.92
Ninth through twelfth	123.78	123.38
Total Classroom based ADA	<u>161.65</u>	<u>161.02</u>

MSA 4 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)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	65,501	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		65,501	181	N/A	Complied
Grade 8		65,501	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,501	181	N/A	Complied
Grade 10		65,501	181	N/A	Complied
Grade 11		65,501	181	N/A	Complied
Grade 12		65,501	181	N/A	Complied

See accompanying note to supplementary information.

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

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	\$ 1,495,924
Increase (Decrease) in:	
Accounts receivable	47,252
Intercompany receivable	46,259
(Increase) in:	
Accounts payable	(222,059)
Deferred revenue	(1,136)
Intercompany payable	<u>(66)</u>
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 1,322,729</u></u>

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 4. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 4 and whether MSA 4 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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.

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*.

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
_____, 2019

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 (MSA 4) compliance with the types of compliance requirements as identified in the *2018-2019 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 4's State government programs as noted below for the year ended June 30, 2019.

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 4'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 *2018-2019 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 4'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 4's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 4 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, 2019,

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 4'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 4 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 4 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 4 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 4 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

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

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 5'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 5's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 5, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 5's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 5's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,987,156	\$ 1,731,955
Accounts receivable	337,071	157,623
Intercompany receivable	1,026	22,592
Prepaid expenses and other current assets	-	11,698
Total Current Assets	<u>2,325,253</u>	<u>1,923,868</u>
Non-Current Assets		
Property and equipment	205,518	205,518
Less: accumulated depreciation	(141,155)	(123,576)
Total Non-Current Assets	<u>64,363</u>	<u>81,942</u>
Total Assets	<u>\$ 2,389,616</u>	<u>\$ 2,005,810</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 496,724	\$ 102,310
Deferred revenue	5,090	-
Intercompany payable	105,795	8,168
Total Liabilities	<u>607,609</u>	<u>110,478</u>
Net Assets		
Without donor restrictions		
Designated	284,969	251,130
Unrestricted	1,497,038	1,644,202
Total Net Assets	<u>1,782,007</u>	<u>1,895,332</u>
Total Liabilities and Net Assets	<u>\$ 2,389,616</u>	<u>\$ 2,005,810</u>

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

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

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 2,519,073	\$ 1,927,351
Federal revenue	136,309	218,909
State revenue	239,173	481,588
Local revenue	13,837	124,580
Total Revenues	<u>2,908,392</u>	<u>2,752,428</u>
Expenses		
Program services	2,130,052	1,550,450
Management and general	891,665	682,203
Total Expenses	<u>3,021,717</u>	<u>2,232,653</u>
Change in Net Assets	(113,325)	519,775
Net Assets, Beginning of Year	<u>1,895,332</u>	<u>1,375,557</u>
Net Assets, End of Year	<u>\$ 1,782,007</u>	<u>\$ 1,895,332</u>

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

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

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (113,325)	\$ 519,775
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	17,579	11,392
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(179,448)	68,516
Decrease in intercompany receivable	21,566	129,588
Decrease in prepaid expenses	11,698	110,151
Increase (Decrease) in accounts payable	394,414	(10,729)
Increase (Decrease) in intercompany payable	97,627	(26,568)
Increase in deferred revenue	5,090	-
Net Cash Provided by Operating Activities	<u>255,201</u>	<u>802,125</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>-</u>	<u>(70,977)</u>
Net Increase in Cash	255,201	731,148
Cash, Beginning of Year	<u>1,731,955</u>	<u>1,000,807</u>
Cash, End of Year	<u>\$ 1,987,156</u>	<u>\$ 1,731,955</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 5
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 1,212,578	\$ 236,315	\$ 1,448,893
Employee benefits	204,627	-	204,627
Payroll taxes	338,986	78,588	417,574
Total Personnel	<u>1,756,191</u>	<u>314,903</u>	<u>2,071,094</u>
Operating			
Fees for services	-	102,636	102,636
Advertising and promotions	-	9,086	9,086
Office expenses	35,826	11,351	47,177
Information technology	5,940	-	5,940
Occupancy	-	215,762	215,762
Travel	-	361	361
Conferences and meeting	-	939	939
Depreciation	17,579	-	17,579
Insurance	-	6,431	6,431
Other expenses	49,518	43,089	92,607
Capital outlay	57,635	-	57,635
Special Education Local Plan Area fees	45,716	-	45,716
Instructional materials	36,983	-	36,983
Nutrition	99,577	-	99,577
District oversight fees	25,087	-	25,087
Management fees	-	187,107	187,107
Total Operating	<u>373,861</u>	<u>576,762</u>	<u>950,623</u>
Total Functional Expenses	<u>\$ 2,130,052</u>	<u>\$ 891,665</u>	<u>\$ 3,021,717</u>

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (MSA 5), formerly located in Hollywood, now located in Reseda, California provides sixth through ninth grade education to approximately 248 students. MSA 5 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. During 2018, MSA 5 was approved for a five year period ending June 30, 2023 under Los Angeles County Office of Education. MSA 5 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 5 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 5's Charter School Management Organization (CMO) that manages MSA 5's nonacademic operation such as financial, general administration, and human resource management. MSA 5'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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

MSA 5 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between MSA 5.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 5 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

MSA 5 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)**NOTES TO FINANCIAL STATEMENTS**
JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 5 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, MSA 5 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 5 are derived principally from state and federal sources. MSA 5 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. MSA 5 receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Income Taxes

MSA 5 is a California 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. 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 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

MSA 5 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for MSA 5 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Change in Accounting Policy

As of July 1, 2019, MSA 5 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from MSA 5's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess MSA 5's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. MSA 5 has elected not to present comparative information for these amendments.

MSA 5 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 5's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, MSA 5 adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the MSA 5's June 30, 2018 net assets.

The effect on the MSA 5's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,375,557	\$ (1,375,557)	\$ -
Net assets without donor restrictions		1,375,557	1,375,557
Net assets, end of the year			
Unrestricted	\$ 1,895,332	\$ (1,895,332)	\$ -
Net assets without donor restrictions	-	1,895,332	1,895,332

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 1,987,156	\$ 2,010,281	\$ 1,731,955	\$ 1,827,198

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 5 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 5 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 5 had a balance of \$1,982,236 and \$1,797,783, respectively, in excess of FDIC insured limits. Management believes MSA 5 is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	\$ 1,987,156	\$ 1,731,955
Accounts receivable	337,071	157,623
Prepaid expenses and other assets	-	11,698
Intercompany receivables	1,026	22,592
Financial Assets, at year end	<u>2,325,253</u>	<u>1,923,868</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(284,969)</u>	<u>(251,130)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,040,284</u>	<u>\$ 1,672,738</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 222,665	\$ 80,927
Federal receivables	30,862	33,944
State receivables	70,086	21,005
Lottery	12,262	21,747
Local receivables	1,196	-
	<u>\$ 337,071</u>	<u>\$ 157,623</u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 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, 2019 and 2018, MSA 5 had an intercompany receivable balance of \$1,026 and \$22,592, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ -	\$ 11,698

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019 and 2018:

	2019	2018
Computers and equipment	\$ 191,682	\$ 191,682
Work in progress	13,836	13,836
Subtotal	205,518	205,518
Less: accumulated depreciation	(141,155)	(123,576)
Total property and equipment	<u>\$ 64,363</u>	<u>\$ 81,942</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 85,662	\$ 40,053
Vendor payable	411,062	58,713
Due to other agencies	-	3,544
	<u>\$ 496,724</u>	<u>\$ 102,310</u>

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 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, 2019 and 2018, MSA 5 had an intercompany payable balance of \$105,795 and \$8,168, respectively, 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 MSA 5 education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was \$210,006 and \$119,195, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 5 is part of the Foundation. MSA 5 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, 2019 and 2018, were \$187,107 and \$82,190, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 284,969	\$ 251,130
Unrestricted	1,497,038	1,644,202
Total Net Assets without Donor Restrictions	\$ 1,782,007	\$ 1,895,332

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 MSA 5 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 5 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

MSA 5 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

MSA 5 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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA 5's total contributions were \$185,900 and \$127,705, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. MSA 5 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, 2019 and 2018, are presented above and the total Charter School contributions were \$42,947 and \$18,940, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$135,445 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$11,765 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CasSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 5 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 MSA 5 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 5 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 MSA 5 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 5 made payments of \$16,296 and \$20,163, respectively, to CharterSAFE for services received June 30, 2019 and 2018, respectively, MSA 5 had no recorded accounts receivable or accounts payable to CharterSAFE.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 15 - CONTINGENCIES

Grants

MSA 5 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 5 is not currently a party to any legal proceedings.

NOTE 16 - SUBSEQUENT EVENTS

MSA 5's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy (Charter Number 0987) was granted on January 23, 2018, by the Los Angeles County Office of Education for a five year period ending June 30, 2023. MSA 5 has been approved for grades six through eight and operated one school, grades six through nine.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	57.34	57.18
Seventh and eighth	106.37	106.37
Ninth through twelfth	68.20	67.92
Total Regular ADA	<u>231.91</u>	<u>231.47</u>
Classroom based ADA		
Fourth through sixth	57.34	57.18
Seventh and eighth	106.37	106.37
Ninth through twelfth	68.20	67.92
Total Classroom based ADA	<u>231.91</u>	<u>231.47</u>

MSA 5 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

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

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	63,070	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		63,070	181	N/A	Complied
Grade 8		63,070	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,975	181	N/A	Complied
Grade 10		64,975	181	N/A	Complied
Grade 11		64,975	181	N/A	Complied
Grade 12		64,975	181	N/A	Complied

See accompanying note to supplementary information.

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

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 2,037,605
Increase in:	
Accounts receivable	87,574
Intercompany receivable	1,026
(Increase) in:	
Accounts payable	(233,313)
Deferred revenue	(5,090)
Intercompany payable	<u>(105,795)</u>
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 1,782,007</u></u>

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 5. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 5 and whether MSA 5 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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 Magnolia Science Academy 5 (MSA 5) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA 5'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 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 MSA 5'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 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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 (MSA 5) compliance with the types of compliance requirements as identified in the *2018-2019 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 5's State government programs as noted below for the year ended June 30, 2019.

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 5'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 *2018-2019 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 5'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 5's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 5 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 5'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 5 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 5 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 5 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 5 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 6'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 6's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 6, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 6's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 6's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,719,960	\$ 1,442,531
Accounts receivable	256,078	162,484
Intercompany receivable	8,002	2,500
Prepaid expenses and other current assets	9,714	14,884
Total Current Assets	<u>1,993,754</u>	<u>1,622,399</u>
Non-Current Assets		
Property and equipment	158,971	158,971
Less: accumulated depreciation	(148,877)	(130,981)
Total Non-Current Assets	<u>10,094</u>	<u>27,990</u>
Total Assets	<u>\$ 2,003,848</u>	<u>\$ 1,650,389</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 175,226	\$ 46,433
Deferred revenue	12,223	-
Intercompany payable	2,110	58
Total Current Liabilities	<u>189,559</u>	<u>46,491</u>
Net Assets		
Without donor restrictions		
Designated	217,955	112,184
Unrestricted	1,596,334	1,491,714
Total Net Assets	<u>1,814,289</u>	<u>1,603,898</u>
Total Liabilities and Net Assets	<u>\$ 2,003,848</u>	<u>\$ 1,650,389</u>

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 1,496,543	\$ 1,449,785
Federal revenue	98,528	143,028
State revenue	321,358	374,247
Local revenue	5,441	52,349
Total Revenues	<u>1,921,870</u>	<u>2,019,409</u>
Expenses		
Program services	1,242,399	1,064,560
Management and general	469,080	609,872
Total Expenses	<u>1,711,479</u>	<u>1,674,432</u>
Change in Net Assets	210,391	344,977
Net Assets, Beginning of Year	<u>1,603,898</u>	<u>1,258,921</u>
Net Assets, End of Year	<u>\$ 1,814,289</u>	<u>\$ 1,603,898</u>

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 210,391	\$ 344,977
Adjustments to reconcile change in net assets to net cash Provided by operating activities		
Depreciation expense	17,896	28,726
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(93,594)	5,618
Decrease in intercompany receivable	(5,502)	447,500
Decrease in prepaid expenses	5,170	2,682
Increase (Decrease) in accounts payable	128,793	(109,714)
Increase (Decrease) in intercompany payable	2,052	(26,334)
Increase in deferred revenue	12,223	-
Net Cash Provided by Operating Activities	<u>277,429</u>	<u>693,455</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>-</u>	<u>(4,983)</u>
Net Increase in Cash	277,429	688,472
Cash, Beginning of Year	1,442,531	754,059
Cash, End of Year	<u>\$ 1,719,960</u>	<u>\$ 1,442,531</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)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 721,480	\$ 110,312	\$ 831,792
Employee benefits	123,119	-	123,119
Payroll taxes	222,308	33,263	255,571
Total Personnel	<u>1,066,907</u>	<u>143,575</u>	<u>1,210,482</u>
Operating			
Fees for services	-	81,532	81,532
Advertising and promotions	-	18,698	18,698
Office expenses	31,104	4,513	35,617
Information technology	5,698	-	5,698
Occupancy	-	130,840	130,840
Travel	-	2,083	2,083
Depreciation	17,896	-	17,896
Insurance	-	6,215	6,215
Other expenses	11,019	37,966	48,985
Capital outlay	16,611	-	16,611
Special Education Local Plan Area fees	54,633	-	54,633
Instructional materials	22,410	-	22,410
Nutrition	1,554	-	1,554
District oversight fees	14,567	-	14,567
Management fees	-	43,658	43,658
Total Operating	<u>175,492</u>	<u>325,505</u>	<u>500,997</u>
Total Functional Expenses	<u>\$ 1,242,399</u>	<u>\$ 469,080</u>	<u>\$ 1,711,479</u>

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy-6 (MSA 6) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 156 students. The School was created under the approval of the Los Angeles Unified School District (ending June 30, 2019) 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

MSA 6 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 6's Charter School Management Organization (CMO) that manages MSA 6's nonacademic operation such as financial, general administration, and human resource management. MSA 6'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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the MSA 6's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 6 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 6.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 6 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

MSA 6 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 6 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, MSA 6 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 6 are derived principally from state and federal sources. MSA 6 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

MSA 6 is a California 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. 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 2015 and forward may be audited by regulatory agencies; however, MSA 6 is not aware of any such actions at this time.

MSA 6 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires MSA 6 to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, MSA 6 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for MSA 6's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from MSA 6's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess MSA 6's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. MSA 6 has elected not to present comparative information for these amendments.

MSA 6 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 6's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,258,921	\$ (1,258,921)	\$ -
Net assets without donor restrictions		1,258,921	1,258,921
Net assets, end of the year			
Unrestricted	\$ 1,603,898	\$ (1,603,898)	\$ -
Net assets without donor restrictions	-	1,603,898	1,603,898

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 1,719,960	\$ 1,736,607	\$ 1,442,531	\$ 1,496,957

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 6 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 6 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 6 had \$1,712,380 and \$1,472,859, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,719,960	\$ 1,442,531
Accounts receivable	256,078	162,484
Prepaid expenses and other assets	9,714	14,884
Intercompany receivables	<u>8,002</u>	<u>2,500</u>
Financial Assets, at year end	<u>1,993,754</u>	<u>1,622,399</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(217,955)</u>	<u>(112,184)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,775,799</u></u>	<u><u>\$ 1,510,215</u></u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Local Control Funding Formula	\$ 201,027	\$ 36,937
Federal receivables	6,962	37,474
State receivables	27,248	74,645
Lottery	19,743	13,428
Local receivables	<u>1,098</u>	<u>-</u>
	<u><u>\$ 256,078</u></u>	<u><u>\$ 162,484</u></u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 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, 2019 and 2018, MSA 6 had an intercompany receivable balance of \$8,002 and \$2,500, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 9,714	\$ 14,884

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 148,877	\$ 148,877
Work in progress	10,094	10,094
Subtotal	158,971	158,971
Less: accumulated depreciation	(148,877)	(130,981)
Total property and equipment	\$ 10,094	\$ 27,990

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 38,181	\$ 37,359
Vendor payable	137,045	5,646
Due to other agencies	-	3,428
	\$ 175,226	\$ 46,433

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 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, 2019 and 2018, MSA 6 had an intercompany payable balance of \$2,110 and \$58, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 10 – FACILITIES USE AGREEMENT

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 MSA 6 educational programs and related Charter School activities. Lease payments during 2019 and 2018, were \$114,000 and \$114,000, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 6 is part of the Foundation. MSA 6 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, 2019 and 2018, was \$43,658 and \$82,190, respectively.

NOTE 12 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 217,955	\$ 112,184
Unrestricted	1,596,334	1,491,714
Total Net Assets without Donor Restrictions	\$ 1,814,289	\$ 1,603,898

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 MSA 6 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 6 has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 6 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

MSA 6 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)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA 6's total contributions were \$145,276 and \$96,199, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2017. This report and CalPERS audited financial information are publicly 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)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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. MSA 6 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, 2019 and 2018, are presented above and the total Charter School contributions were \$17,784 and \$15,954, respectively.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$103,065 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$7,040 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 6 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 6 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 6 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 MSA 6 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 6 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 MSA 6 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

During the year ended June 30, 2019 and 2018, MSA 6 made payments of \$15,023 and \$19,055, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 6 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 6's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 6 (Charter Number 0988) was granted on May 8, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 6 operates one school, grades six through eight.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	52.51	52.89
Seventh and eighth	96.58	97.12
Total Regular ADA	<u>149.09</u>	<u>150.01</u>
Classroom based ADA		
Fourth through sixth	52.51	52.89
Seventh and eighth	96.58	97.12
Total Classroom based ADA	<u>149.09</u>	<u>150.01</u>

MSA 6 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)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	60,844	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,844	181	N/A	Complied
Grade 8		60,844	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 1,908,859
Increase in:	
Accounts receivable	29,894
Intercompany receivable	8,002
Prepaid expenses and other current assets	1,993
(Increase) in:	
Accounts payable	(120,126)
Deferred revenue	(12,223)
Intercompany payable	(2,110)
Net Assets, June 30, 2019, Audited Financial Statement	<u>\$ 1,814,289</u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 6. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 6 and whether MSA 6 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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 Magnolia Science Academy 6 (MSA 6) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA 6'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 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 MSA 6'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 6's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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 (MSA 6) compliance with the types of compliance requirements as identified in the *2018-2019 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 6's State government programs as noted below for the year ended June 30, 2019.

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 6'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 *2018-2019 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 6'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 6's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 6 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 6'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 6 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 6 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 6 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
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 7
(A California Nonprofit 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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 7'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 7's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 7, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 7's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 7's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,314,944	\$ 1,269,979
Accounts receivable	409,828	318,241
Prepaid expenses and other current assets	23,786	22,337
Total Current Assets	<u>1,748,558</u>	<u>1,610,557</u>
Non-Current Assets		
Security deposit	-	7,227
Property and equipment	290,998	290,998
Less: accumulated depreciation	(122,900)	(122,900)
Total Non-Current Assets	<u>168,098</u>	<u>175,325</u>
Total Assets	<u>\$ 1,916,656</u>	<u>\$ 1,785,882</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 359,410	\$ 277,107
Deferred revenue	1,859	-
Intercompany payable	12,746	10,579
Total Current Liabilities	<u>374,015</u>	<u>287,686</u>
Net Assets		
Without donor restrictions		
Designated	9,783	254,562
Unrestricted	1,532,858	1,243,634
Total Net Assets	<u>1,542,641</u>	<u>1,498,196</u>
Total Liabilities and Net Assets	<u>\$ 1,916,656</u>	<u>\$ 1,785,882</u>

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 2,764,875	\$ 2,565,977
Federal revenue	314,706	241,181
State revenue	796,108	945,358
Local revenue	56,165	98,633
Total Revenues	<u>3,931,854</u>	<u>3,851,149</u>
Expenses		
Program services	2,246,312	1,758,757
Management and general	1,641,097	1,606,526
Total Expenses	<u>3,887,409</u>	<u>3,365,283</u>
Change in Net Assets	44,445	485,866
Net Assets, Beginning of Year	<u>1,498,196</u>	<u>1,012,330</u>
Net Assets, End of Year	<u>\$ 1,542,641</u>	<u>\$ 1,498,196</u>

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 44,445	\$ 485,866
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	-	18,515
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(91,587)	(46,843)
(Increase) Decrease in prepaid expenses	(1,449)	113,146
Increase (Decrease) in security deposits	7,227	(3,227)
Increase in accounts payable	82,303	167,876
(Decrease) in intercompany payable	2,167	(140,470)
Increase in deferred revenue	1,859	-
	44,965	594,863
Net Cash Provided by Operating Activities		
Cash Flows From Investing Activities		
Capital expenditures	-	(155,024)
	-	(155,024)
Net Increase in Cash	44,965	439,839
Cash, Beginning of Year	1,269,979	830,140
Cash, End of Year	\$ 1,314,944	\$ 1,269,979
Supplemental cash flow disclosure		
Cash paid during the period for interest	\$ -	\$ -

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 1,149,969	\$ 346,488	\$ 1,496,457
Employee benefits	257,866	-	257,866
Payroll taxes	346,711	93,345	440,056
Total Personnel	<u>1,754,546</u>	<u>439,833</u>	<u>2,194,379</u>
Operating			
Fees for services	-	265,192	265,192
Advertising and promotions	-	3,942	3,942
Office expenses	24,192	9,874	34,066
Information technology	7,419	-	7,419
Occupancy	-	361,038	361,038
Travel	-	2,513	2,513
Insurance	-	20,399	20,399
Other expenses	190,473	39,354	229,827
Capital outlay	80,004	-	80,004
Special Education Local Plan Area fees	107,729	-	107,729
Instructional materials	49,220	-	49,220
Nutrition	5,110	-	5,110
District oversight fees	27,619	-	27,619
Management fees	-	498,952	498,952
Total Operating	<u>491,766</u>	<u>1,201,264</u>	<u>1,693,030</u>
Total Functional Expenses	<u>\$ 2,246,312</u>	<u>\$ 1,641,097</u>	<u>\$ 3,887,409</u>

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (MSA 7) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 291 students. MSA 7 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. MSA 7 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 7 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 7's Charter School Management Organization (CMO) that manages MSA 7's nonacademic operation such as financial, general administration, and human resource management. MSA 7'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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

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. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,012,330	\$ (1,012,330)	\$ -
Net assets without donor restrictions		1,012,330	1,012,330
Net assets, end of the year			
Unrestricted	\$ 1,498,196	\$ (1,498,196)	\$ -
Net assets without donor restrictions	-	1,498,196	1,498,196

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 1,314,944	\$ 1,348,805	\$ 1,269,979	\$ 1,327,872

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 7 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 7 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 7 had a balance of \$1,329,988 and \$1,306,496, respectively, in excess of FDIC insured limits. Management believes MSA 7 is not exposed to any significant risk related to cash.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 1,314,944	\$ 1,269,979
Accounts receivable	409,828	318,241
Prepaid expenses and other assets	23,786	22,337
Financial Assets, at year end	<u>1,748,558</u>	<u>1,610,557</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(9,783)</u>	<u>(254,562)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,738,775</u></u>	<u><u>\$ 1,355,995</u></u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019, consisted of the following:

	<u>2019</u>	<u>2018</u>
Local Control Funding Formula	\$ 227,209	\$ 88,402
Federal receivables	2,076	52,117
State receivables	162,174	151,786
Lottery	16,845	25,719
Local receivables	1,524	217
	<u><u>\$ 409,828</u></u>	<u><u>\$ 318,241</u></u>

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Insurance and miscellaneous vendors	<u><u>\$ 23,786</u></u>	<u><u>\$ 22,337</u></u>

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Building improvements	\$ 27,904	\$ 27,904
Computers and equipment	94,996	94,996
Work in progress	168,098	168,098
Subtotal	290,998	290,998
Less: accumulated depreciation	(122,900)	(122,900)
Total property and equipment	<u>\$ 168,098</u>	<u>\$ 168,098</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 100,517	\$ 80,072
Vendor payable	258,893	185,047
Due to other agencies	-	11,988
	<u>\$ 359,410</u>	<u>\$ 277,107</u>

NOTE 8 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 7 and reimbursement for those resources from MSA 7 to the Foundation, and cash transfers for cash flow purposes. MSA 7 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, 2019 and 2018, MSA 7 had an intercompany payable balance of \$12,746 and \$10,579, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9 – FACILITIES USE AGREEMENT

Magnolia Science Academy 7 entered into a lease extension agreement with First Lutheran Church of Northridge on June 20, 2017, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating MSA 7 educational programs and related Charter School activities and include rental fees that shall be paid on the first of every month. Monthly payments in the amount of \$20, 867 shall be made beginning in fiscal year 2017-2018 and increase 3 percent annually. The term of the lease expired on August 1, 2022. Lease payments during 2019 and 2018, were \$280,236 and \$271,754, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

MSA 7 is part of the Foundation. MSA 7 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, 2019 and 2018, were \$498,952 and \$547,935, respectively.

NOTE 11 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 9,783	\$ 254,562
Unrestricted	1,532,858	1,243,634
Total Net Assets without Donor Restrictions	\$ 1,542,641	\$ 1,498,196

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 MSA 7 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 7 has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 7 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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.

MSA 7 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 7
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STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA 7's total contributions were \$172,932 and \$140,104, 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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly 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 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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. MSA 7 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, 2019 and 2018, are presented above and the total Charter School contributions were \$53,215 and \$32,737, respectively.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$157,259 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$14,446 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CasSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 7 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 MSA 7 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 7 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 MSA 7 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 7 made payments of \$34,775 and \$31,480, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 7 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - CONTINGENCIES

Grants

MSA 7 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

Litigation

Magnolia Science Academy 7 is not currently a party to any legal proceedings.

NOTE 15 - SUBSEQUENT EVENTS

MSA 7's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 7 (Charter Number 0989) was granted on February 26, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 7 operates one school, grades kindergarten through five.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7**(A California Nonprofit Public Benefit Corporation)****SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	193.56	193.47
Fourth through sixth	80.41	80.21
Total Regular ADA	<u>273.97</u>	<u>273.68</u>
Classroom based ADA		
Transitional kindergarten through third	193.56	193.47
Fourth through sixth	80.41	80.21
Total Classroom based ADA	<u>273.97</u>	<u>273.68</u>

MSA 7 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)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	57,125	176	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		57,125	176	N/A	Complied
Grade 2		57,125	176	N/A	Complied
Grade 3		57,125	176	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		57,125	176	N/A	Complied
Grade 5		57,125	176	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 1,395,457
Increase in:	
Accounts receivable	30,395
(Increase) Decrease in:	
Accounts payable	131,394
Deferred revenue	(1,859)
Intercompany payable	(12,746)
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 1,542,641</u></u>

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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 MSA 7. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 7 and whether MSA 7 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

MSA 7 must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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 Magnolia Science Academy 7 (MSA 7) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA 7'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 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 MSA 7'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 7's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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 (MSA 7) compliance with the types of compliance requirements as identified in the *2018-2019 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 7's State government programs as noted below for the year ended June 30, 2019.

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 7'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 *2018-2019 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 7'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 7's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 7 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 7'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 7 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 7 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 7 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
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

**MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

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

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 Bell'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 Bell's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Bell, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Bell's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Bell's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,529,656	\$ 1,907,434
Accounts receivable	536,075	385,404
Intercompany receivable	1,811,055	1,722,916
Prepaid expenses and other current assets	233	79,980
Total Current Assets	<u>4,877,019</u>	<u>4,095,734</u>
Non-Current Assets		
Property and equipment	353,397	320,329
Less: accumulated depreciation	<u>(253,100)</u>	<u>(187,190)</u>
Total Non-Current Assets	<u>100,297</u>	<u>133,139</u>
Total Assets	<u>\$ 4,977,316</u>	<u>\$ 4,228,873</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 721,283	\$ 144,722
Deferred revenue	20,038	-
Intercompany payable	434	434
Total Current Liabilities	<u>741,755</u>	<u>145,156</u>
Net Assets		
Without donor restrictions		
Designated	-	272,911
Unrestricted	<u>4,235,561</u>	<u>3,810,806</u>
Total Net Assets	<u>4,235,561</u>	<u>4,083,717</u>
Total Liabilities and Net Assets	<u>\$ 4,977,316</u>	<u>\$ 4,228,873</u>

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

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

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 4,646,128	\$ 4,538,699
Federal revenue	334,005	342,604
State revenue	750,585	980,866
Local revenue	31,869	74,954
Total Revenues	<u>5,762,587</u>	<u>5,937,123</u>
Expenses		
Program services	3,331,289	2,815,881
Management and general	2,279,454	2,403,924
Total Expenses	<u>5,610,743</u>	<u>5,219,805</u>
Change in Net Assets	151,844	717,318
Net Assets, Beginning of Year	<u>4,083,717</u>	<u>3,366,399</u>
Net Assets, End of Year	<u>\$ 4,235,561</u>	<u>\$ 4,083,717</u>

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

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

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 151,844	\$ 717,318
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	65,910	57,572
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(150,671)	(533)
(Increase) Decrease in intercompany receivable	(88,139)	350,391
(Increase) Decrease in prepaid expenses	79,747	(59,534)
Increase (Decrease) in accounts payable	576,561	(63,838)
(Decrease) in intercompany payable	-	(12,754)
Increase in deferred revenue	20,038	-
Net Cash Provided by Operating Activities	<u>655,290</u>	<u>988,622</u>
Cash Flows From Investing Activities		
Capital expenditures	<u>(33,068)</u>	<u>(7,027)</u>
Net Increase in Cash	622,222	981,595
Cash, Beginning of Year	1,907,434	925,839
Cash, End of Year	<u>\$ 2,529,656</u>	<u>\$ 1,907,434</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)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 1,847,602	\$ 519,107	\$ 2,366,709
Employee benefits	341,043	-	341,043
Payroll taxes	545,278	139,224	684,502
Total Personnel	<u>2,733,923</u>	<u>658,331</u>	<u>3,392,254</u>
Operating			
Fees for services	-	155,513	155,513
Advertising and promotions	-	5,054	5,054
Office expenses	39,172	7,653	46,825
Information technology	26,010	-	26,010
Occupancy	-	380,725	380,725
Conferences and meeting	-	1,536	1,536
Depreciation	65,910	-	65,910
Insurance	-	23,483	23,483
Other expenses	33,098	70,050	103,148
Capital outlay	75,113	-	75,113
Special Education Local Plan Area fees	113,366	-	113,366
Instructional materials	69,118	-	69,118
Nutrition	128,558	-	128,558
District oversight fees	47,021	-	47,021
Management fees	-	977,109	977,109
Total Operating	<u>597,366</u>	<u>1,621,123</u>	<u>2,218,489</u>
Total Functional Expenses	<u>\$ 3,331,289</u>	<u>\$ 2,279,454</u>	<u>\$ 5,610,743</u>

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy Bell

Charter school number authorized by the State: 1236

Magnolia Science Academy-8 (MSA Bell) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 471 students. MSA Bell was created under the approval of the Los Angeles Unified School District (ending June 30, 2020) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Bell is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

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

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 3,366,399	\$ (3,366,399)	\$ -
Net assets without donor restrictions		3,366,399	3,366,399
Net assets, end of the year			
Unrestricted	\$ 4,083,717	\$ (4,083,717)	\$ -
Net assets without donor restrictions	-	4,083,717	4,083,717

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 2,529,656	\$ 2,682,353	\$ 1,907,434	\$ 2,174,208

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Bell maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Bell has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA Bell had a balance of \$2,644,931 and \$2,139,207, respectively, in excess of FDIC insured limits. Management believes MSA Bell is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	\$ 2,529,656	\$ 1,907,434
Accounts receivable	536,075	385,404
Prepaid expenses and other assets	233	79,980
Intercompany receivables	1,811,055	1,722,916
Financial Assets, at year end	4,877,019	4,095,734
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	-	(272,911)
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,877,019	\$ 3,822,823

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 348,166	\$ 199,840
Federal receivables	46,929	122,396
State receivables	110,436	17,928
Lottery	29,345	45,240
Local receivables	1,199	-
	<u>\$ 536,075</u>	<u>\$ 385,404</u>

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell 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, 2019 and 2018, MSA Bell had an intercompany receivable balance of \$1,811,055 and \$1,722,916, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, are as follows:

	2019	2018
Insurance and miscellaneous vendors	<u>\$ 233</u>	<u>\$ 79,980</u>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 340,633	\$ 307,565
Work in progress	12,764	12,764
Subtotal	353,397	320,329
Less: accumulated depreciation	(253,100)	(187,190)
Total property and equipment	<u>\$ 100,297</u>	<u>\$ 133,139</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 189,899	\$ 98,996
Vendor payable	531,384	45,726
	<u>\$ 721,283</u>	<u>\$ 144,722</u>

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell 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, 2019 and 2018, MSA Bell had an intercompany payable balance of \$434 and \$434, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy Bell renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA Bell education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was \$343,535 and \$318,111, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA Bell is part of the Foundation. MSA Bell 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, 2019 and 2018, were \$977,109 and \$1,095,870, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ -	\$ 272,911
Unrestricted	4,235,561	3,810,806
Total Net Assets without Donor Restrictions	\$ 4,235,561	\$ 4,083,717

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 MSA Bell chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA Bell 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

MSA Bell 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. 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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

MSA Bell 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, 2019, 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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA Bell's total contributions were \$265,648 and \$232,680, respectively.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

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, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation,. This report and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. MSA Bell 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, 2019 and 2018, are presented above and the total Charter School contributions were \$47,279 and \$44,743, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$254,065 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$19,736 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA Bell 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA Bell is not currently a party to any legal proceedings.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA Bell 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 MSA Bell and the CharterSAFE is such that the CharterSAFE is not considered a component unit of MSA Bell 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 MSA Bell are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA Bell made payments of \$47,279 and \$50,548, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA Bell had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA Bell's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District and extended for a five year period ending June 30, 2020. MSA Bell operates one school, grades six through twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	122.81	131.91
Seventh and eighth	327.30	340.97
Total Regular ADA	<u>450.11</u>	<u>472.88</u>
Classroom based ADA		
Fourth through sixth	122.81	131.91
Seventh and eighth	327.30	340.97
Total Classroom based ADA	<u>450.11</u>	<u>472.88</u>

MSA Bell 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)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	62,625	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		62,625	181	N/A	Complied
Grade 8		62,625	181	N/A	Complied

See accompanying note to supplementary information.

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

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
 FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 4,437,930
Increase (Decrease) in:	
Accounts receivable	(1,652,552)
Intercompany receivable	1,811,055
(Increase) in:	
Accounts payable	(340,400)
Deferred revenue	(20,038)
Intercompany payable	<u>(434)</u>
Net Assets, June 30, 2019, Audited Financial Statement	<u><u>\$ 4,235,561</u></u>

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 MSA Bell. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA Bell and whether MSA Bell complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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 Magnolia Science Academy Bell (MSA Bell) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA Bell'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 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*.

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

Rancho Cucamonga, California
_____, 2019

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 (MSA Bell) compliance with the types of compliance requirements as identified in the *2018-2019 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 Bell's State government programs as noted below for the year ended June 30, 2019.

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 Bell'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 *2018-2019 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 Bell'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 Bell's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Bell 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA Bell'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive Schools Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
Attendance	
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 Bell does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA Bell does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

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

Rancho Cucamonga, California
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY BELL
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 Ana'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 Ana's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Santa Ana, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Santa Ana's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Ana's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 882,408	\$ 708,858
Accounts receivable	217,899	1,017,487
Intercompany receivable	618,358	34,430
Prepaid expenses and other current assets	635	866
Total Current Assets	<u>1,719,300</u>	<u>1,761,641</u>
Non-Current Assets		
Investments in LLC	75,554	75,554
Security deposit	-	19,890
Property and equipment	22,622,538	22,622,538
Less: accumulated depreciation	<u>(1,651,959)</u>	<u>(1,091,112)</u>
Total Non-Current Assets	<u>21,046,133</u>	<u>21,626,870</u>
Total Assets	<u>\$ 22,765,433</u>	<u>\$ 23,388,511</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 413,797	\$ 951,469
Deferred revenue	664	-
Intercompany payable	2,375,621	2,181,887
Current portion of note payable	94,583	82,500
Current portion of long-term obligation	<u>228,013</u>	<u>223,520</u>
Total Current Liabilities	<u>3,112,678</u>	<u>3,439,376</u>
Long-Term Obligations		
Non-current portion of note payable	4,086,805	4,182,500
Non-current portion of long-term obligation	<u>8,037,440</u>	<u>8,264,342</u>
Total Liabilities	<u>15,236,923</u>	<u>15,886,218</u>
Net Assets		
Without donor restrictions		
Designated	272,871	14,716
Unrestricted	<u>7,255,639</u>	<u>7,487,577</u>
Total Net Assets	<u>7,528,510</u>	<u>7,502,293</u>
Total Liabilities and Net Assets	<u>\$ 22,765,433</u>	<u>\$ 23,388,511</u>

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 6,767,105	\$ 6,682,934
Federal revenue	415,188	629,550
State revenue	981,462	841,029
Local revenue	74,339	173,872
Total Revenues	<u>8,238,094</u>	<u>8,327,385</u>
Expenses		
Program services	5,241,451	4,984,004
Management and general	2,970,426	3,718,100
Total Expenses	<u>8,211,877</u>	<u>8,702,104</u>
Change in Net Assets	26,217	(374,719)
Net Assets, Beginning of Year	<u>7,502,293</u>	<u>7,877,012</u>
Net Assets, End of Year	<u>\$ 7,528,510</u>	<u>\$ 7,502,293</u>

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 26,217	\$ (374,719)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	560,847	527,830
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	799,588	(869,683)
(Increase) in intercompany receivable	(583,928)	(19,014)
Decrease in prepaid expenses	231	28,083
(Decrease) in security deposits	-	(200)
Increase in accounts payable	(537,672)	263,063
(Decrease) in intercompany payable	193,734	(78,803)
Increase in deferred revenue	664	-
Net Cash Provided (Used) by Operating Activities	<u>459,681</u>	<u>(523,443)</u>
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(75,554)
Restricted cash used for construction	-	95,590
Capital expenditures	-	(4,289,527)
Net Cash Used by Investing Activities	<u>-</u>	<u>(4,269,491)</u>
Cash Flows From Financing Activities		
Loan proceeds	-	4,264,988
Loan payment	(286,131)	(244,116)
Net Cash Used by Financing Activities	<u>(286,131)</u>	<u>4,020,872</u>
Net Decrease in Cash	173,550	(772,062)
Cash, Beginning of Year	708,858	1,480,920
Cash, End of Year	<u>\$ 882,408</u>	<u>\$ 708,858</u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u>\$ 593,520</u>	<u>\$ 446,990</u>

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 2,843,530	\$ 791,138	\$ 3,634,668
Employee benefits	539,291	-	539,291
Payroll taxes	589,916	206,894	796,810
Total Personnel	<u>3,972,737</u>	<u>998,032</u>	<u>4,970,769</u>
Operating			
Fees for services	-	152,402	152,402
Advertising and promotions	-	20,111	20,111
Office expenses	42,272	7,429	49,701
Information technology	11,452	-	11,452
Occupancy	-	160,658	160,658
Travel	-	1,079	1,079
Conferences and meeting	-	315	315
Interest	-	593,520	593,520
Depreciation	560,847	-	560,847
Insurance	-	29,826	29,826
Other expenses	79,803	9,150	88,953
Capital outlay	123,168	-	123,168
Special Education Local Plan Area fees	225,199	-	225,199
Instructional materials	87,941	-	87,941
Nutrition	601	-	601
District oversight fees	137,431	-	137,431
Management fees	-	997,904	997,904
Total Operating	<u>1,268,714</u>	<u>1,972,394</u>	<u>3,241,108</u>
Total Functional Expenses	<u>\$ 5,241,451</u>	<u>\$ 2,970,426</u>	<u>\$ 8,211,877</u>

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

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 0943

Magnolia Science Academy Santa Ana (MSA Santa Ana) (Formerly Pacific Technology School Santa Ana) is a charter school located in Santa Ana, California that provides transitional kindergarten through twelfth grade education to approximately 674 students. MSA Santa Ana was created under the approval the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA Santa Ana is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA Santa Ana's Charter School Management Organization (CMO) that manages MSA Santa Ana's nonacademic operation such as financial, general administration, and human resource management. MSA Santa Ana'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 Santa Ana, LLC

MERF formed the MPM Santa Ana, 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 Magnolia Science Academy Santa Ana (MSA-SA) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SA Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

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. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 7,877,012	\$ (7,877,012)	\$ -
Net assets without donor restrictions		7,877,012	7,877,012
Net assets, end of the year			
Unrestricted	\$ 7,502,293	\$ (7,502,293)	\$ -
Net assets without donor restrictions	-	7,502,293	7,502,293

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 290,929	\$ 324,201	\$ 266,617	\$ 1,262,083
Cash with Orange County				
Investment Pool	591,479	N/A	442,241	N/A
	<u>\$ 882,408</u>	<u>\$ 324,201</u>	<u>\$ 708,858</u>	<u>\$ 1,262,083</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Santa Ana maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Santa Ana has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA Santa Ana had a balance of \$319,678 and \$419,062, respectively, in excess of FDIC insured limits. Management believes MSA Santa Ana is not exposed to any significant risk related to cash.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 882,408	\$ 708,858
Accounts receivable	217,899	1,017,487
Prepaid expenses and other assets	635	866
Intercompany receivables	618,358	34,430
Financial Assets, at year end	<u>1,719,300</u>	<u>1,761,641</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(272,871)</u>	<u>(14,716)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,446,429</u></u>	<u><u>\$ 1,746,925</u></u>

NOTE 4 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

<u>Investment Type</u>	<u>2019</u>	<u>2018</u>
	Reported	Reported
	Amount	Amount
Orange County Pooled Investment Funds	<u>\$ 591,479</u>	<u>\$ 266,617</u>

All assets have been valued using a market approach, with quoted market prices.

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. MSA Santa Ana 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. MSA Santa Ana manages its exposure to interest rate risk by investing in the County Pool.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Weighted Average Maturity

MSA Santa Ana monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled				
Investment Funds	\$ 591,479	310	\$ 266,617	302

NOTE 5 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MSA Santa Ana 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.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Uncategorized - Investments in the Orange County Treasury Investment Pool are not measured using the input levels above because MSA Santa Ana's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

MSA Santa Ana's fair value measurements are as follows at June 30, 2019 and 2018:

Investment Type	2019		2018	
	Reported Amount	Uncategorized	Reported Amount	Uncategorized
Orange County Pooled Investment Funds	\$ 591,479	\$ 591,479	\$ 266,617	\$ 266,617

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ -	\$ 755,157
Federal receivables	105,025	141,485
State receivables	64,093	57,467
Lottery	-	63,378
Local receivables	48,781	-
	<u>\$ 217,899</u>	<u>\$ 1,017,487</u>

NOTE 7 - INTERCOMPANY RECEIVABLE

The June 30, 2019, intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana 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, 2019 and 2018, MSA Santa Ana had an intercompany receivable balance of \$618,358 and \$34,430, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 635	\$ 866

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Building improvements	\$ 22,157,822	\$ 22,157,822
Computers and equipment	269,645	269,645
Work in progress	195,071	195,071
Subtotal	22,622,538	22,622,538
Less: accumulated depreciation	(1,651,959)	(1,091,112)
Total property and equipment	\$ 20,970,579	\$ 21,531,426

NOTE 10 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 237,954	\$ 138,917
Vendor payable	175,843	812,552
	\$ 413,797	\$ 951,469

NOTE 11 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana 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, 2019 and 2018, MSA Santa Ana had an intercompany payable balance of \$2,375,621 and \$2,181,887 from the Foundation.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12 – LONG TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA Santa Ana by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a 3.10 Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage

Net Income	\$	26,217
Depreciation		560,847
Rent		516,500
Management fees (50%)		498,952
Income Available for Coverage		1,602,516
Debt Service		516,500

Debt Service Coverage		3.10
Limit		1.10
Compliance		Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA Santa Ana had 120 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand

Total Expenses	\$	3,241,108
Depreciation		560,847
Cash Expenses		2,680,261
Expense/Day		7,343
Cash		882,408

Days Cash on Hand		120
Limit		45
Compliance		Yes

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Charter School Facilities Program

MSA Santa Ana 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 2.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2019, was \$8,265,453.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	\$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	<u>(2,519,103)</u>
Total	<u><u>\$ 8,265,453</u></u>

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 13 – NOTE PAYABLE

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of \$1,480,000 on September 6, 2017 and the second advance of \$2,785,000 on December 22, 2017.

Fiscal Year Ending June 30,	Payments
2020	\$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	<u>(6,472,654)</u>
Total	<u><u>\$ 4,181,388</u></u>

NOTE 14 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 272,871	\$ 14,716
Unrestricted	7,255,639	7,487,577
Total Net Assets without Donor Restrictions	<u>\$ 7,528,510</u>	<u>\$ 7,502,293</u>

NOTE 15 - RELATED PARTY TRANSACTIONS

MSA Santa Ana is part of the Foundation. MSA Santa Ana 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, 2019 and 2018, were \$1,095,870 and \$1,079,401, respectively.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 MSA Santa Ana chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA Santa Ana 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

MSA Santa Ana 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly 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 SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

MSA Santa Ana 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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA Santa Ana's total contributions were \$421,966 and \$404,295, 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.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly 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 SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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. MSA Santa Ana 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, 2019 and 2018, are presented above and the total Charter School contributions were \$130,507 and \$73,135, respectively.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$124,753 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$16,100 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 17 - CONTINGENCIES

Grants

MSA Santa Ana 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA Santa Ana is not currently a party to any legal proceedings.

NOTE 18 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA Santa Ana 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 MSA Santa Ana and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA Santa Ana 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 MSA Santa Ana are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA Santa Ana made payments of \$74,024 and \$76,477, respectively, to CharterSAFE for services received. At June 30, 2019, MSA Santa Ana had no recorded accounts receivable or accounts payable to CharterSAFE.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 19 - SUBSEQUENT EVENTS

MSA Santa Ana's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019**

ORGANIZATION

Magnolia Science Academy Santa Ana (Charter Number 1686) was granted on August 1, 2014, by the California State Board of Education. MSA Santa Ana operates one school, for students in transitional kindergarten through grade twelve.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	211.80	212.02
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Regular ADA	<u>640.00</u>	<u>638.51</u>
Classroom based ADA		
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Classroom based ADA	<u>640.00</u>	<u>638.51</u>

MSA Santa Ana did not operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	50,015	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,585	181	N/A	Complied
Grade 2		54,585	181	N/A	Complied
Grade 3		54,585	181	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,585	181	N/A	Complied
Grade 5		54,585	181	N/A	Complied
Grade 6		66,382	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		66,382	181	N/A	Complied
Grade 8		66,382	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,382	181	N/A	Complied
Grade 10		66,382	181	N/A	Complied
Grade 11		66,382	181	N/A	Complied
Grade 12		66,382	181	N/A	Complied

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 8,025,658
Increase (Decrease) in:	
Accounts receivable	(488,291)
Intercompany receivable	618,358
Prepaid expenses and other current assets	(25,046)
Accumulated depreciation	(361,825)
(Increase) Decrease in:	
Accounts payable	354,054
Deferred revenue	(664)
Intercompany payable	(2,375,621)
Note payable	(4,181,388)
long-term obligation	6,191,288
Net Assets, June 30, 2019, Audited Financial Statement	<u>\$ 7,528,510</u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 MSA Santa Ana. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA Santa Ana and whether MSA Santa Ana complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA Santa Ana's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001.

MSA Santa Ana's Response to Findings

MSA Santa Ana's response to the findings identified in our audit are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs. MSA Santa Ana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Santa Ana'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 Ana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2019

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's Santa Ana (MSA Santa Ana) compliance with the types of compliance requirements as identified in the *2018-2019 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 Ana's State government programs as noted below for the year ended June 30, 2019.

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 Ana'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 *2018-2019 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 Ana'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 Ana's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Santa Ana 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA Santa Ana'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before 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
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 Ana did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

MSA Santa Ana does not operate a before or after school program within the After/Before 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.

ADA was below the threshold required for testing; 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 Ana did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019**

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>Yes</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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2019-001 30000 – Financial Statement Preparation and Audit Adjustments

Criteria or Specific Requirements

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting of accrual basis accounting under the requirements of the Financial Accounting Standards Board (FASB). It also includes the ability to prepare the required footnote disclosures by FASB.

Condition

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries and footnotes.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to depreciation expense was not recorded and accounted for due to not having a control system in place.

Effect

The auditor proposed certain accrual closing entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles to address the year end adjustment.

Cause

The timing of the accrual was during a transition period for new management company making it difficult to implement this level of internal control to monitor year end accruals.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Recommendation

Management and those charged with governance should implement a control system which allows for the monitoring of accruals and the related disclosure and consider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The MSA Santa Ana agrees that having an internal control system over monitoring the year end accruals is an important part of the MSA Santa Ana's overall internal control process. The MSA Santa Ana has created processes to monitor and implement these controls.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

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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 Magnolia Science Academy San Diego (MSA San Diego) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 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 San Diego'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 San Diego's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA San Diego, as of June 30, 2019 and 2018, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2019, on our consideration of 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA San Diego's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 235,322	\$ 657,784
Accounts receivable	133,499	271,945
Intercompany receivable	116,401	-
Prepaid expenses and other current assets	291	128,519
Total Current Assets	<u>485,513</u>	<u>1,058,248</u>
Non-Current Assets		
Investments in LLC	198,191	198,191
Restricted cash	106,607	106,607
Property and equipment	667,450	667,450
Less: accumulated depreciation	<u>(387,776)</u>	<u>(372,561)</u>
Total Non-Current Assets	<u>584,472</u>	<u>599,687</u>
Total Assets	<u>\$ 1,069,985</u>	<u>\$ 1,657,935</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 386,200	\$ 137,405
Intercompany payable	<u>223,766</u>	<u>215,638</u>
Total Current Liabilities	<u>609,966</u>	<u>353,043</u>
Long-Term Obligations		
Non-current portion of long-term obligation	<u>151,806</u>	<u>151,806</u>
Total Liabilities	<u>761,772</u>	<u>504,849</u>
Net Assets		
Without donor restrictions		
Designated	237,447	349,323
Unrestricted	<u>70,766</u>	<u>803,763</u>
Total Net Assets	<u>308,213</u>	<u>1,153,086</u>
Total Liabilities and Net Assets	<u>\$ 1,069,985</u>	<u>\$ 1,657,935</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 2,946,503	\$ 2,947,210
Federal revenue	107,361	117,595
State revenue	544,317	788,908
Local revenue	<u>93,070</u>	<u>99,365</u>
Total Revenues	<u>3,691,251</u>	<u>3,953,078</u>
Expenses		
Program services	2,738,687	2,173,624
Management and general	<u>1,797,437</u>	<u>1,875,054</u>
Total Expenses	<u>4,536,124</u>	<u>4,048,678</u>
Change in Net Assets	(844,873)	(95,600)
Net Assets, Beginning of Year	<u>1,153,086</u>	<u>1,248,686</u>
Net Assets, End of Year	<u>\$ 308,213</u>	<u>\$ 1,153,086</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (844,873)	\$ (95,600)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	15,216	30,567
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	138,446	(21,283)
(Increase) in intercompany receivable	(116,401)	11,025
Decrease in prepaid expenses	128,228	117,518
(Decrease) in security deposits	-	25,000
Increase in accounts payable	248,795	976
(Decrease) in intercompany payable	8,127	185,876
Net Cash Provided (Used) by Operating Activities	<u>(422,462)</u>	<u>254,079</u>
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(198,191)
Capital expenditures	-	(18,165)
Net Cash Used by Investing Activities	<u>-</u>	<u>(216,356)</u>
Net Decrease in Cash	(422,462)	37,723
Cash, Beginning of Year	657,784	620,061
Cash, End of Year	<u>\$ 235,322</u>	<u>\$ 657,784</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 SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 1,570,424	\$ 366,001	\$ 1,936,425
Employee benefits	272,446	-	272,446
Payroll taxes	538,852	87,532	626,384
Total Personnel	<u>2,381,722</u>	<u>453,533</u>	<u>2,835,255</u>
Operating			
Fees for services	-	51,209	51,209
Advertising and promotions	-	4,798	4,798
Office expenses	15,897	10,098	25,995
Information technology	5,511	-	5,511
Occupancy	-	819,818	819,818
Travel	-	7,794	7,794
Conferences and meeting	-	4,179	4,179
Depreciation	15,216	-	15,216
Insurance	-	20,103	20,103
Other expenses	105,272	24,813	130,085
Capital outlay	66,860	-	66,860
Special Education Local Plan Area fees	60,655	-	60,655
Instructional materials	52,691	-	52,691
Nutrition	3,667	-	3,667
District oversight fees	31,196	-	31,196
Management fees	-	401,092	401,092
Total Operating	<u>356,965</u>	<u>1,343,904</u>	<u>1,700,869</u>
Total Functional Expenses	<u>\$ 2,738,687</u>	<u>\$ 1,797,437</u>	<u>\$ 4,536,124</u>

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

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (MSA San Diego) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 404 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

MSA San Diego is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA San Diego's Charter School Management Organization (CMO) that manages MSA San Diego's nonacademic operation such as financial, general administration, and human resource management. MSA San Diego'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 San Diego, LLC

MERF formed the MPM San Diego, 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 Magnolia Science Academy San Diego (MSA-SD) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SD Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)****NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

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. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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. 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 2015 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 1,248,686	\$ (1,248,686)	\$ -
Net assets without donor restrictions		1,248,686	1,248,686
Net assets, end of the year			
Unrestricted	\$ 1,153,086	\$ (1,153,086)	\$ -
Net assets without donor restrictions	-	1,153,086	1,153,086

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 152,872	\$ 198,166	\$ 595,726	\$ 1,262,083
Cash with San Diego County				
Investment Pool	82,450	N/A	62,058	N/A
	<u>\$ 235,322</u>	<u>\$ 198,166</u>	<u>\$ 657,784</u>	<u>\$ 1,262,083</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had \$195,401 and \$654,179 in excess of insured limits.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 235,322	\$ 657,784
Accounts receivable	133,499	271,945
Prepaid expenses and other assets	291	128,519
Financial Assets, at year end	<u>485,513</u>	<u>1,058,248</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(237,447)</u>	<u>(349,323)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 248,066</u>	<u>\$ 708,925</u>

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, 2019 and 2018, was comprised of the following:

	<u>2019</u>	<u>2018</u>
Current restricted cash	<u>\$ 106,607</u>	<u>\$ 106,607</u>

Restricted cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had \$0 and \$0, respectively, in excess of insured limits.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

Investment Type	2019	2018
	Reported Amount	Reported Amount
San Diego County Pooled Investment Funds	\$ 82,450	\$ 62,058

All assets have been valued using a market approach, with quoted market prices.

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. MSA San Diego 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. MSA San Diego manages its exposure to interest rate risk by investing in the County Pool.

Weighted Average Maturity

MSA San Diego monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
San Diego County Pooled Investment Funds	\$ 82,450	528	\$ 62,058	370

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MSA San Diego 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.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

Uncategorized - Investments in the San Diego County Treasury Investment Pools are not measured using the input levels above because MSA San Diego's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

MSA San Diego's fair value measurements are as follows at June 30, 2019 and 2018:

Investment Type	2019		2018	
	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
San Diego County Pooled Investment Funds	\$ 82,450	\$ 82,450	\$ 62,058	\$ 62,058

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ -	\$ 158,421
Federal receivables	56,297	64,072
State receivables	77,202	39,073
Lottery	-	10,379
	<u>\$ 133,499</u>	<u>\$ 271,945</u>

NOTE 8 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2019 and 2018, MSA San Diego had an intercompany receivable balance of \$116,401 and \$0, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	<u>\$ 291</u>	<u>\$ 128,519</u>

NOTE 10 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	\$ 410,868	\$ 410,868
Work in progress	<u>256,582</u>	<u>256,582</u>
Subtotal	667,450	667,450
Less: accumulated depreciation	<u>(387,776)</u>	<u>(372,561)</u>
Total property and equipment	<u>\$ 279,674</u>	<u>\$ 294,889</u>

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 250,979	\$ 45,626
Vendor payable	135,221	87,373
Due to other agencies	-	4,406
	<u>\$ 386,200</u>	<u>\$ 137,405</u>

NOTE 12 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2019 and 2018, MSA San Diego had an intercompany payable balance of \$223,766 and \$215,638, respectively, from the Foundation.

NOTE 13 - LONG-TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA San Diego by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a (0.33) Debt Service Coverage Ratio and did not meet compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage	
Net Income	\$ (844,873)
Depreciation	15,216
Rent	473,760
Management Fees (50%)	200,546
Income Available for Coverage	(155,351)
Debt Service	473,760
Debt Service Coverage	(0.33)
Limit	1.10
Compliance	No

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA San Diego had 51 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand	
Total Expenses	\$ 1,700,869
Depreciation	15,216
Cash Expenses	1,685,653
Expense/Day	4,618
Cash	235,322
Days Cash on Hand	51
Limit	45
Compliance	Yes

Charter School Facilities Program

MSA San Diego 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 MSA San Diego's State School Fund Apportionments. The outstanding loan balance as of June 30, 2019 and 2018, was \$151,806 and \$151,806, respectively.

NOTE 14 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 237,447	\$ 349,323
Unrestricted	70,766	803,763
Total Net Assets without Donor Restrictions	<u>\$ 308,213</u>	<u>\$ 1,153,086</u>

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 15 - FACILITIES USE AGREEMENT

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with San Diego Unified School District (SDUSD) for the sole purpose of operating MSA San Diego education programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019, was \$721,589.

NOTE 16 - RELATED PARTY TRANSACTIONS

MSA San Diego is part of the Foundation. MSA San Diego 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, 2019 and 2018, is \$401,092 and \$324,470, respectively.

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 MSA San Diego chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA San Diego 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

MSA San Diego 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.

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, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

MSA San Diego 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, 2019, 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	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and MSA San Diego's total contributions were \$240,780 and \$201,763, respectively.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly 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.

The CalPERS provisions and benefits in effect at June 30, 2019, 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	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. MSA San Diego 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, 2019 and 2018, are presented above and the total Charter School contributions were \$64,037 and \$28,775, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$235,821 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$13,108 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 18 - CONTINGENCIES

Grants

MSA San Diego 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time." Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA San Diego is not currently a party to any legal proceedings.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 19 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA San Diego 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 MSA San Diego and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA San Diego 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 MSA San Diego are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA San Diego made payments of \$38,077 and \$43,695, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA San Diego had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 20 - SUBSEQUENT EVENTS

MSA San Diego's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____, 2019, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy San Diego (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District. MSA San Diego operates one school, grades six through eight.

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	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, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Regular ADA	<u>386.25</u>	<u>383.65</u>
Classroom based ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Classroom based ADA	<u>386.25</u>	<u>383.65</u>

MSA San Diego operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
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SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Grade 6	54,000	59,826	178	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,826	178	N/A	Complied
Grade 8		59,826	178	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 342,662
Increase (Decrease) in:	
Cash and cash equivalents	(106,607)
Intercompany receivable	116,401
Prepaid expenses and other current assets	8,816
Restricted cash	106,607
(Increase) Decrease in:	
Accounts payable	64,100
Intercompany payable	(223,766)
Net Assets, June 30, 2019,	
Audited Financial Statement	<u>\$ 308,213</u>

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

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 MSA San Diego. 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 at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA San Diego and whether MSA San Diego complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets 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 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) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2019.

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 MSA San Diego'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 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*.

We noted certain matters that we reported to management of MSA San Diego in a separate letter dated _____, 2019.

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

Rancho Cucamonga, California
_____, 2019

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's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2018-2019 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 San Diego's State government programs as noted below for the year ended June 30, 2019.

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 San Diego'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 *2018-2019 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 San Diego'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 San Diego's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA San Diego 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, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA San Diego'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
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before 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
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 does not operate a before or after school program within the After/Before 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.

ADA was below the threshold required for testing; 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
_____, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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)**

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

None reported.

**MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

Cover Sheet

Approval of Conflict of Interest Code Per Fair Political Practice Commission Request

Section: IV. Action Items
Item: F. Approval of Conflict of Interest Code Per Fair Political Practice
Commission Request
Purpose: Vote
Submitted by:
Related Material: IV F COI Code.pdf



Board Agenda Item #	IV F- Action Item
Date:	December 15, 2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Alfredo Rubalcava, CEO & Superintendent
RE:	Conflict of Interest Code Approval

Proposed Board Motion

I move that the board approve the CA Fair Political Practices Commission (FPPC) approved Conflict of Interest Code for Magnolia Educational & Research Foundation.

Introduction

The MPS Board needs to act on the reapproval of the MPS Conflict of Interest (COI) Code. On September 22, 2019 the board approved a revised COI Code, COI Policy and updated MPS Bylaws. However, when staff took the revised COI Code to the FPPC, they rejected the revised version and asked MPS to continue using the version they approved on November 1, 2017. The FPPC stated that the version approved in 2017 was the standard format and recommended for us to keep the revised version as an internal file, which we already have as part of the COI Policy.

Background

Since MPS has four different authorizers, comply with four different COI regulations was difficult. Therefore, staff had the FPPC approve one COI Code to be used by all 10 MPS. This allows for original Form 700s to be kept at the Home Office and authorizers receive copies only. Before the FPPC COI Code approval, MPS staff was submitting multiple original Form 700s to the different authorizers.

Budget Implications

None

Exhibits (attachments):

- Original (from 2017) COI Code
- Board Report from September 22, 2019

**MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CONFLICT OF INTEREST CODE**

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation (2 California Code of Regulations §18730) that contains the terms of a standard conflict of interest code, which can be incorporated by reference in an agency's code. After public notice and hearing, the standard code may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act. Therefore, the terms of 2 California Code of Regulations Section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. This regulation and the attached Appendices, designating positions and establishing disclosure categories, shall constitute the conflict of interest code for the **Magnolia Educational & Research Foundation. (MERF)**

Individuals holding designated positions shall file statements of economic interests with the **MERF**, which will make the statements available for public inspection and reproduction (Government Code § 81008). All statements will be retained by **MERF**.

**APPENDIX A
DESIGNATED POSITIONS**

<u>Designated Positions</u>	<u>Disclosure Category</u>
Members of the Governing Board	1, 2
Corporate Officers (e.g., CEO/President, CFO/Treasurer, Secretary)	1, 2
Chief External Officer	1, 2
Regional Director – South	1, 2
Regional Director – North	1, 2
Chief Operations Officer	1, 2
Chief Academic Officer	1, 2
Chief Accountability Officer	1, 2
Principals	3
Consultants/New Positions	*

*Consultants/New Positions shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation:

The CEO/President or designee may determine in writing that a particular consultant or new position, although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements in this section. Such written determination shall include a description of the consultant’s or new position’s duties and, based upon that description, a statement of the extent of disclosure requirements. The CEO/President or designee’s determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code (Government Code § 81008).

APPENDIX B DISCLOSURE CATEGORIES

Category 1

Designated positions assigned to this category must report:

- a. Interests in real property located in whole or in part within a two-mile radius of:
 - The Los Angeles Unified School District, the Santa Ana Unified School District, or the San Diego Unified School District, or
 - Any facility utilized by MERF's charter schools, or
 - A proposed site for a MERF facility.
- b. Investments and business positions in business entities, or sources of income (including gifts, loans, and travel payments) that engage in the purchase or sale of real property or are engaged in building construction or design.

Category 2

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by MERF.

Category 3

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by the designated position's department. For the purpose of this category a Principal's department is his/her entire school.

This is the last page of the conflict of interest code for **Magnolia Educational & Research Foundation**.



CERTIFICATION OF FPPC APPROVAL

Pursuant to Government Code Section 87303, the conflict of interest code for **Magnolia Educational & Research Foundation** was approved on 11/11 2017. This code will become effective on 12/1 2017.

A handwritten signature in blue ink, appearing to read "B. Lau", written over a horizontal line.

Brian G. Lau
Senior Commission Counsel
Fair Political Practices Commission

ATTACHMENT #2



Board Agenda Item #	Agenda # III A-Action Item
Date:	9/22/2019
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Alfredo Rubalcava, CEO & Superintendent
RE:	Revised Bylaws and COI Code and Policy

Action Item

I move that the board approve the revised MPS Bylaws, Conflict of Interest Code and Conflict of Interest Policy effective January 1, 2020 to comply with SB 126.

Introduction

- Senate Bill 126 will take effect January 1, 2020.
- Regulations include information pertaining to the Ralph M. Brown Act, Public Records Act requirements, Conflict of Interest and Political Form Act. (Gov. Code 1090).

New requirements:

Brown Act:

- All board and committee meetings must be open and public- (MPS in already in compliance)
- The governing board shall meet within the physical boundaries of the county in which the greatest number of pupils are (For MPS the boundary is within Los Angeles County- MPS will be in compliance effective January 1, 2020)
- All MSAs will have to remain open for each meeting and must provide two-way teleconference access for all committee and board meetings. (This has been communicated with MPS principals, MPS will be in compliance effective January 1, 2020)
- All audio recordings must be posted on each school's website. (MPS will be in compliance effective January 1, 2020)

Public Records Act:

- As required by the CA Public Records Act, all records must be available for public inspections upon request unless the records are exempt from disclosure (MPS is already in compliance)

Financial Interest:

- Existing law prohibits certain public officials, including, but not limited to, state, county, or district officers or employees, from being financially interested in any contract made by them in their official capacity or by any body or board of which they are members, except as provided. This bill would expressly state that charter schools and entities managing charter schools are subject to these provisions, except that the bill would provide that an employee of a charter school is not disqualified from serving as a member of the governing body of the charter school because of that employment status. The bill would require a member of the governing body of a charter school who is also an employee of the charter school to abstain from voting on, or influencing or attempting to influence another member of that body regarding, any matter uniquely affecting that member's own employment. (MPS in compliance- MPS Bylaws Article VII Section 4 states that no current employees of the corporation may serve on the Board)

Public Records Act:

- Requires designated employees of the agency to file statements of economic interest disclosing any investments, business positions, interests in real property, or sources of income that may foreseeably be affected materially by any governmental decision made or participated in by the designated employee by virtue of that employee's position. (MPS complies through the filing of Form 700)

Other needed changes:

- The new COI Code is what the FPPC is approving now and after approval by the MPS board it will have to go to the FPPC for re-approval.
- The COI Policy has minor changes that address comments from authorizers.

Budget Implications:

Potential expenses including but not limited to items listed below are not included in the board approved budgets by school sites or MERF; adjustments will be made in the first interim budget:

- There may be additional costs incurred by the organization to reflect the extra hours worked by school staff when they need to keep campuses open
- There may be additional costs in transportation expenses for staff and board members that need to travel to the monthly meetings

Exhibits

- Red-lined MPS Bylaws with recommended changes by legal
- New COI Code and older version as reviewed by legal
- COI Policy (redlined as reviewed by legal)

AMENDED AND RESTATED BYLAWS
OF
MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION

(A California Nonprofit Public Benefit Corporation)

**ARTICLE I
NAME**

Section 1. NAME. The name of this corporation is Magnolia Educational & Research Foundation.

**ARTICLE II
PRINCIPAL OFFICE OF THE CORPORATION**

Section 1. PRINCIPAL OFFICE OF THE CORPORATION. The principal office for the transaction of the activities and affairs of this corporation is 250 East 1st Street, Suite 1500, Los Angeles, 90012 California. The Board of Directors may change the location of the principal office. Any such change of location must be noted by the Secretary on these bylaws opposite this Section; alternatively, this Section may be amended to state the new location.

Section 2. OTHER OFFICES OF THE CORPORATION. The Board of Directors may at any time establish branch or subordinate offices at any place or places where this corporation is qualified to conduct its activities.

**ARTICLE III
GENERAL AND SPECIFIC PURPOSES; LIMITATIONS**

Section 1. GENERAL AND SPECIFIC PURPOSES. The purposes of this corporation are to provide community support in educational and research areas, which include, but are not limited to the following: managing, operating, guiding, directing and promoting public charter schools; conducting scientific research at K-12 schools and colleges to identify and implement successful education practices; promoting and discovering the research modules in scientific areas with applied and practicable methods to promote prospective scientists; coordinating international conferences/competitions in various fields of academic study. Also in the context of these purposes, the Corporation shall not, except to an insubstantial degree, engage in any other activities or exercise of power that do not further the purposes of the Corporation.

The Corporation shall not carry on any other activities not permitted to be carried on by: (a) a corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code; or (b) a corporation, contributions to which are deductible under section 170(c)(2) of the Internal Revenue Code, or the corresponding section of any future federal tax code. No substantial part of the activities of the corporation shall consist of the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distributing of statements) any political campaign on behalf of or in opposition to any candidate for public office.

Amended and Restated Bylaws of Magnolia Educational & Research Foundation
Adopted: 6/16/08 Amended: 4/19/12, 4/11/13, 12/12/13, 1/9/15, 2/16/15, 8/11/16, 10/26/16, 11/3/16,
10/11/18, [9/22/19](#)

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**ARTICLE IV
CONSTRUCTION AND DEFINITIONS**

Section 1. CONSTRUCTION AND DEFINITIONS. Unless the context indicates otherwise, the general provisions, rules of construction and definitions in the California Nonprofit Corporation Law shall govern the construction of these bylaws. Without limiting the generality of the preceding sentence, the masculine gender includes the feminine and neuter, the singular includes the plural, and the plural includes the singular, and the term "person" includes both a legal entity and a natural person.

**ARTICLE V
DEDICATION OF ASSETS**

Section 1. DEDICATION OF ASSETS. This corporation's assets are irrevocably dedicated to public benefit purposes. No part of the net earnings, properties, or assets of the corporation, on dissolution or otherwise, shall inure to the benefit of any private person or individual, or to any director or officer of the corporation. On liquidation or dissolution, all properties and assets remaining after payment, or provision for payment, of all debts, liabilities and all charter obligations of the corporation shall be distributed to a nonprofit fund, foundation, or corporation that is organized and operated exclusively for the public and/or charitable purposes of managing, operating, guiding, directing, promoting, and/or supporting one or more California public charter schools that serve students in grades K-12 and that has established its exempt status under Internal Revenue Code section 501(c)(3).

**ARTICLE VI
CORPORATIONS WITHOUT MEMBERS**

Section 1. CORPORATIONS WITHOUT MEMBERS. This corporation shall have no voting members within the meaning of the Nonprofit Corporation Law.

**ARTICLE VII
BOARD OF DIRECTORS**

Section 1. GENERAL POWERS. Subject to the provisions and limitations of the California Nonprofit Public Benefit Corporation Law and any other applicable laws, and subject to any limitations of the articles of incorporation or bylaws, the corporation's activities and affairs shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Directors ("Board"). The Board may delegate the management of the corporation's activities to any person(s), management company or committees, however composed, provided that the activities and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board.

Section 2. SPECIFIC POWERS. Without prejudice to the general powers set forth in Section 1 of these bylaws, but subject to the same limitations, the Board of Directors shall have the power to:

- a. Appoint and remove, at the pleasure of the Board of Directors, all corporate officers, agents, and

employees; prescribe powers and duties for them as are consistent with the law, the articles of incorporation, and these bylaws; fix their compensation; and require from them security for faithful service.

- b. Change the principal office or the principal business office in California from one location to another; cause the corporation to be qualified to conduct its activities in any other state, territory, dependency, or country; conduct its activities in or outside California; and designate a place in California for holding any meeting of members.
- c. Borrow money and incur indebtedness on the corporation's behalf and cause to be executed and delivered for the corporation's purposes, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidences of debt and securities.
- d. Adopt and use a corporate seal; prescribe the forms of membership certificates; and alter the forms of the seal and certificates.

Section 3. DESIGNATED DIRECTORS. The number of directors shall be no less than three (3) and no more than eleven (11), unless changed by amendments to these bylaws. The exact number of directors shall be fixed within these limits by a Resolution of the Board. All directors shall be designated by the existing Board of Directors.

The Board of Directors commits to designating at least one (1) director who resides in each county where this corporation operates a charter school. The Board of Directors shall strive to recruit directors representing parents and the charter school communities, from diverse professional and ethnic backgrounds and commits to designating at least one (1) director representing parents at all times.

Section 4. RESTRICTION ON EMPLOYEE DIRECTORS. No current employees of the corporation may serve on the Board of Directors.

Commented [WKS1]: Magnolia is already complying with Government Code section 1090 so no change is needed here regarding the new requirements under Education Code section 47604.1.

Section 5. DIRECTORS' TERMS. Each director shall hold office for five (5) years and until a successor director has been designated and qualified. The terms of directors shall be staggered as determined by the Board. Staggering has been accomplished by the Board appointing directors on different dates. Staggering shall be maintained as directors shall be appointed to fill vacant seats at the expiration of each staggered term.

Section 6. NOMINATIONS BY COMMITTEE. The Chairman of the Board of Directors or, if none, the President will appoint a committee to nominate qualified candidates for designation to the Board of Directors at least thirty (30) days before the date of any designation of directors. The nominating committee shall make its report at least seven (7) days before the date of the designation or at such other time as the Board of Directors may set and the Secretary shall forward to each Board member, with the notice of meeting required by these bylaws, a list of all candidates nominated by committee. Any member of the community may also refer a potential candidate to the Board for consideration.

Section 7. USE OF CORPORATE FUNDS TO SUPPORT NOMINEE. If more people have been nominated for director than can be designated, no corporation funds may be expended to support a nominee.

Section 8. EVENTS CAUSING VACANCIES ON BOARD. A vacancy or vacancies on the Board of Directors shall occur in the event of (a) the death, resignation, or removal of any director; (b) the declaration by resolution

of the Board of Directors of a vacancy in the office of a director who has been convicted of a felony, declared of unsound mind by a court order, or found by final order or judgment of any court to have breached a duty under California Nonprofit Public Benefit Corporation Law, Chapter 2, Article 3; (c) the increase of the authorized number of directors; and (d) the failure of the members, at any meeting of members at which any director or directors are to be elected, to elect the number of directors required to be elected at such meeting.

Section 9. RESIGNATION OF DIRECTORS. Except as provided below, any director may resign by giving written notice to the Chairman of the Board, if any, or to the President, or the Secretary, or to the Board. The resignation shall be effective when the notice is given unless the notice specifies a later time for the resignation to become effective. If a director's resignation is effective at a later time, the Board of Directors may elect a successor to take office as of the date when the resignation becomes effective.

Section 10. DIRECTOR MAY NOT RESIGN IF NO DIRECTOR REMAINS. Except on notice to the California Attorney General, no director may resign if the corporation would be left without a duly elected director or directors.

Section 11. REMOVAL OF DIRECTORS. Any director may be removed, with or without cause, by a simple majority of directors then in office at a special meeting called for that purpose, or at a regular meeting, provided that notice of that meeting and of the removal questions are given in compliance with the provisions of the Ralph M. Brown Act. (Chapter 9 (commencing with Section 54950) of Division 2 of Title 5 of the Government Code). Any vacancy caused by the removal of a director shall be filled as provided in Section 12.

Section 12. VACANCIES FILLED BY BOARD. Vacancies on the Board of Directors may be filled by approval of the Board of Directors or, if the number of directors then in office is less than a quorum, by (a) the unanimous consent of the directors then in office, (b) the affirmative vote of a majority of the directors then in office at a meeting held according to notice or waivers of notice complying with Corporations Code Section 5211, or (c) a sole remaining director.

Section 13. NO VACANCY ON REDUCTION OF NUMBER OF DIRECTORS. Any reduction of the authorized number of directors shall not result in any directors being removed before his or her term of office expires.

Section 14. QUORUM. A majority of the directors then in office shall constitute a quorum. If a quorum is present, the affirmative vote of the majority of the directors at the meeting shall be a decision of the Board of Directors. Should there be fewer than a majority of the directors present at any meeting, the meeting shall be adjourned. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. Directors may not vote by proxy. The vote or abstention of each board member present for each action taken shall be publicly reported.

Section 15. COMPENSATION AND REIMBURSEMENT. Directors shall serve without compensation except that they shall be allowed reasonable advancement or reimbursement of actual reasonable expenses incurred in carrying out his or her duties. Directors shall not otherwise be compensated.

Commented [WKS2]: Again, Magnolia is already in compliance with the new law.

Section 16. CREATION AND POWERS OF COMMITTEES. The Board, by resolution adopted by a majority of the directors then in office, may create one or more committees, each consisting of two or more directors and no one who is not a director, to serve at the pleasure of the Board. Appointments to committees of the Board of Directors shall be by majority vote of the authorized number of directors. The Board of Directors may appoint one or more directors as alternate members of any such committee, who may replace any absent member at any meeting. Any such committee shall have all the authority of the Board, to the extent provided in the Board of Directors' resolution, except that no committee may:

- a. Take any final action on any matter that, under the California Nonprofit Public Benefit Corporation Law, also requires approval of the members or approval of a majority of all members;
- b. Fill vacancies on the Board of Directors or any committee of the Board;
- c. Amend or repeal bylaws or adopt new bylaws;
- d. Amend or repeal any resolution of the Board of Directors that by its express terms is not so amendable or subject to repeal;
- e. Create any other committees of the Board of Directors or appoint the members of committees of the Board; or
- f. Expend corporate funds to support a nominee for director if more people have been nominated for director than can be elected.

Section 17. MEETINGS AND ACTION OF COMMITTEES. Meetings and actions of committees of the Board of Directors shall be governed by, held, and taken under the provisions of these bylaws concerning meetings, other Board of Directors' actions, and the Brown Act, except that the time for general meetings of such committees and the calling of special meetings of such committees may be set either by Board of Directors' resolution or, if none, by resolution of the committee. Minutes of each meeting shall be kept and shall be filed with the corporate records. The Board of Directors may adopt rules for the governance of any committee as long as the rules are consistent with these bylaws. If the Board of Directors has not adopted rules, the committee may do so.

Section 18. NON-LIABILITY OF DIRECTORS. No director shall be personally liable for the debts, liabilities, or other obligations of this corporation.

Section 19. COMPLIANCE WITH LAWS GOVERNING STUDENT RECORDS. The Charter School and the Board of Directors shall comply with all applicable provisions of the Family Education Rights Privacy Act ("FERPA") as set forth in Title 20 of the United States Code Section 1232g and attendant regulations as they may be amended from time to time.

Section 20. COMPLIANCE WITH CONFLICTS OF INTEREST LAWS. The corporation shall comply with applicable conflict of interest laws, including the Political Reform Act of 1974 (Chapter 1 (commencing with Section 81000) of Title 9 of the Government Code) and Govt. Code § 1090 et seq.

**ARTICLES VIII
MEETINGS**

Section 1. PLACE OF BOARD OF DIRECTORS MEETINGS. The Board of Directors will designate that a meetings be held ~~in the county in which the greatest number of pupils enrolled in Magnolia Public Schools reside~~ which is in compliance with the Ralph M. Brown Act and Education Code Section 47604.1(c)(4)(A). The Board of Directors will ~~establish a two-way teleconference location at each of the corporation's charter school sites and each resource center~~ in compliance with the Ralph M. Brown Act and Education Code Section 47604.1(c)(4)(B).

All meetings of the Board of Directors shall be called, held and conducted in accordance with the terms and provisions of the Ralph M. Brown Act, California Government Code Sections 54950, et seq., as said chapter may be modified by subsequent legislation.

Section 2. MEETINGS; ANNUAL MEETINGS. All meetings of the Board of Directors and its committees shall be called, noticed, and held in compliance with the provisions of the Ralph M. Brown Act. ("Brown Act") (Chapter 9 (commencing with Section 54950) of Division 2 of Title 5 of the Government Code).

The Board of Directors shall meet annually for the purpose of organization, appointment of officers, and the transaction of such other business as may properly be brought before the meeting. This meeting shall be held at a time, date, and place as may be specified and noticed by resolution of the Board of Directors.

Section 3. REGULAR MEETINGS. Regular meetings of the Board of Directors shall be held on the second Thursday of each month, unless the second Thursday of the month should fall on a legal holiday in which event the regular meeting shall be held at the same hour and place on the next business day following the legal holiday. At least 72 hours before a regular meeting, the Board of Directors, or its designee, shall post an agenda containing a brief general description of each item of business to be transacted or discussed at the meeting.

Section 4. SPECIAL MEETINGS. Special meetings of the Board of Directors for any purpose may be called at any time by the Chairman of the Board of Directors, if there is such an officer or a majority of the Board of Directors. If a Chairman of the Board has not been elected, then the President is authorized to call a special meeting in place of the Chairman of the Board. The party calling a special meeting shall determine the place, date, and time thereof.

Section 5. NOTICE OF SPECIAL MEETINGS. In accordance with the Brown Act, special meetings of the Board of Directors may be held only after twenty-four (24) hours' notice is given to each director and to the public through the posting of an agenda. Pursuant to the Brown Act, the Board of Directors shall adhere to the following notice requirements for special meetings:

- a. Any such notice shall be addressed or delivered to each director at the director's address as it is shown on the records of the corporation, or as may have been given to the corporation by the director for purposes of notice, or, if an address is not shown on the corporation's records or is not readily ascertainable, at the place at which the meetings of the Board of Directors are regularly held.

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Commented [WKS3]: Effective January 1, 2020, new Education Code section 47604.1(c)(4)(A) states: "For a governing body of an entity that manages two or more charter schools that are not located in the same county, the governing body of the entity managing the charter schools shall meet within the physical boundaries of the county in which the greatest number of pupils enrolled in those charter schools managed by that entity reside."

Deleted: at any place within California that has been designated by resolution of the Board of Directors or in the notice of the meeting and

Commented [WKS4]: Effective January 1, 2020, new Education Code section 47604.1(c)(4)(B) states "two-way teleconference location shall be established at each school site and each resource center." This is required for a governing body of an entity that manages two or more charter schools.

Deleted: commits to rotating the locations of its regular physical meetings among the counties where the corporation's charter school sites are located, and to holding at least one of its regular physical meetings in a calendar year in each of those counties, and that the final date, time, and place will be specified in the notice of the meeting

Commented [WKS5]: New Education Code section 47604.1(c)(4)(C) requires the Magnolia Board to "audio record, video record, or both, all the governing board meetings and post the recordings on each charter school's internet website." We do not recommend this be included in the bylaws but be aware of this requirement beginning January 1, 2020.

- b. Notice by mail shall be deemed received at the time a properly addressed written notice is deposited in the United States mail, postage prepaid. Any other written notice shall be deemed received at the time it is personally delivered to the recipient or is delivered to a common carrier for transmission, or is actually transmitted by the person giving the notice by electronic means to the recipient. Oral notice shall be deemed received at the time it is communicated, in person or by telephone or wireless, to the recipient or to a person at the office of the recipient whom the person giving the notice has reason to believe will promptly communicate it to the receiver.
- c. The notice of special meeting shall state the time of the meeting, and the place if the place is other than the principal office of the corporation, and the general nature of the business proposed to be transacted at the meeting. No business, other than the business the general nature of which was set forth in the notice of the meeting, may be transacted at a special meeting.

Section 6. TELECONFERENCE MEETINGS. Members of the Board of Directors may participate in teleconference meetings so long as all of the following requirements in the Brown Act are complied with:

- a. At a minimum, a quorum of the members of the Board of Directors shall participate in the teleconference meeting from locations within the boundaries of the county in which the greatest number of pupils enrolled in the charter schools managed by the corporation reside.
- b. All votes taken during a teleconference meeting shall be by roll call;
- c. If the Board of Directors elects to use teleconferencing, it shall post agendas at all teleconference locations with each teleconference location being identified in the notice and agenda of the meeting;
- d. All locations where a member of the Board of Directors participates in a meeting via teleconference must be fully accessible to members of the public and shall be listed on the agenda;¹
- e. Members of the public must be able to hear what is said during the meeting and shall be provided with an opportunity to address the Board of Directors directly at each teleconference location; and
- f. The agenda shall indicate that members of the public attending a meeting conducted via teleconference need not give their name when entering the conference call.²

Commented [WKS6]: New Education Code section 47604.1(c)(4)(A), effective January 1, 2020.

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Deleted: a school district in which at least one of the charter schools operated by the corporation operates;

Section 7. ADJOURNMENT. A majority of the directors present, whether or not a quorum is present, may adjourn any Board of Directors meeting to another time or place. If a meeting is adjourned for more than twenty-four (24) hours, notice of such adjournment to another time or place shall be given, prior to the time schedule for the continuation of the meeting, to the directors who were not present at the time of the adjournment, and to the public in the manner prescribed by any applicable public open meeting law.

¹ This means that members of the Board of Directors who choose to utilize their homes or offices as teleconference locations must open these locations to the public and accommodate any members of the public who wish to attend the meeting at that location.
² The Brown Act prohibits requiring members of the public to provide their names as a condition of attendance at the meeting.

**ARTICLE X
OFFICERS OF THE CORPORATION**

Section 1. OFFICES HELD. The officers of this corporation shall be a President, a Secretary, and Chief Financial Officer, who shall be known as the "Treasurer." The corporation, at the Board's direction, may also have a Chairman of the Board, one or more Vice-Presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed under Article X Section 4, of these bylaws.

Section 2. DUPLICATION OF OFFICE HOLDERS. Any number of offices may be held by the same person, except that neither the Secretary nor the Treasurer may serve concurrently as either the President or the Chairman of the Board.

Section 3. ELECTION OF OFFICERS. The officers of this corporation shall be chosen annually by the Board of Directors and shall serve at the pleasure of the Board.

Section 4. APPOINTMENT OF OTHER OFFICERS. The Board of Directors may appoint and authorize the Chairman of the Board, the President, or another officer to appoint any other officers that the corporation may require. Each appointed officer shall have the title and authority, hold office for the period, and perform the duties specified in the bylaws or established by the Board.

Section 5. REMOVAL OF OFFICERS. Without prejudice to the rights of any officer under an employment contract, the Board of Directors may remove any officer with or without cause.

Section 6. RESIGNATION OF OFFICERS. Any officer may resign at any time by giving written notice to the Board. The resignation shall take effect on the date the notice is received or at any later time specified in the notice. Unless otherwise specified in the notice, the resignation need not be accepted to be effective. Any resignation shall be without prejudice to any rights of the corporation under any contract to which the officer is a party.

Section 7. VACANCIES IN OFFICE. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause shall be filled in the manner prescribed in these bylaws for normal appointment to that office, provided, however, that vacancies need not be filled on an annual basis.

Section 8. CHAIRMAN OF THE BOARD. If a Chairman of the Board of Directors is elected, he or she shall preside at the Board of Directors' meetings and shall exercise and perform such other powers and duties as the Board of Directors may assign from time to time. If there is no President, the Chairman of the Board of Directors shall also be the chief executive officer and shall have the powers and duties of the President of the corporation set forth in these bylaws. If a Chairman of the Board of Directors is elected, there shall also be a Vice-Chairman of the Board of Directors. In the absence of the Chairman, the Vice-Chairman shall preside at Board of Directors meetings and shall exercise and perform such other powers and duties as the Board of Directors may assign from time to time.

Section 9. PRESIDENT. Subject to such supervisory powers as the Board of Directors may give to the Chairman of the Board, if any, and subject to the control of the Board, the President shall be the general manager of the

corporation and shall supervise, direct, and control the corporation's activities, affairs, and officers as fully described in any applicable employment contract, agreement, or job specification. The President shall preside at all Board of Directors' meetings. The President shall have such other powers and duties as the Board of Directors or the bylaws may require.

Section 10. VICE-PRESIDENTS. If the President is absent or disabled, the Vice-Presidents, if any, in order of their rank as fixed by the Board, or, if not ranked, a Vice-President designated by the Board, shall perform all duties of the President. When so acting, a Vice-President shall have all powers of and be subject to all restrictions on the President. The Vice-Presidents shall have such other powers and perform such other duties as the Board of Directors or the bylaws may require.

Section 11. SECRETARY. The Secretary shall keep or cause to be kept, at the corporation's principal office or such other place as the Board of Directors may direct, a book of minutes of all meetings, proceedings, and actions of the Board and of committees of the Board. The minutes of meetings shall include the time and place that the meeting was held; whether the meeting was annual, regular, or special and, if special, how authorized; the notice given; and the names of the directors present at Board of Directors and committee meetings.

The Secretary shall keep or cause to be kept, at the principal California office, a copy of the articles of incorporation and bylaws, as amended to date.

The Secretary shall give, or cause to be given, notice of all meetings of the Board and of committees of the Board of Directors that these bylaws require to be given. The Secretary shall keep the corporate seal, if any, in safe custody and shall have such other powers and perform such other duties as the Board of Directors or the bylaws may require.

Section 12. TREASURER. The Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and accounts of the corporation's properties and transactions. The Treasurer shall send or cause to be given to directors such financial statements and reports as are required to be given by law, by these bylaws, or by the Board. The books of account shall be open to inspection by any director at all reasonable times.

The Treasurer shall (a) deposit, or cause to be deposited, all money and other valuables in the name and to the credit of the corporation with such depositories as the Board of Directors may designate; (b) disburse the corporation's funds as the Board of Directors may order; (c) render to the President, Chairman of the Board, if any, and the Board, when requested, an account of all transactions as Treasurer and of the financial condition of the corporation; and (d) have such other powers and perform such other duties as the Board or the bylaws may require.

If required by the Board, the Treasurer shall give the corporation a bond in the amount and with the surety or sureties specified by the Board of Directors for faithful performance of the duties of the office and for restoration to the corporation of all of its books, papers, vouchers, money, and other property of every kind in the possession or under the control of the Treasurer on his or her death, resignation, retirement, or removal from office.

Section 13. VICE-CHAIRMEN. One Vice-Chairman of the Board of Directors will be assigned to each county in which a charter school operated by the corporation is located.

**ARTICLE XI
CONTRACTS WITH DIRECTORS**

Section 1. CONTRACTS WITH DIRECTORS. In compliance with Government Code Section 1090 et seq., the corporation shall not enter into a contract or transaction in which a director directly or indirectly has a material financial interest (nor any other corporation, firm, association, or other entity in which one or more of the corporation's directors are directors and have a material financial interest).

Commented [WKS7]: Again, Magnolia already complies with Government Code section 1090, so no change is needed with new law.

**ARTICLE XII
CONTRACTS WITH NON-DIRECTOR DESIGNATED EMPLOYEES**

Section 1. CONTRACTS WITH NON-DIRECTOR DESIGNATED EMPLOYEES. The corporation shall not enter into a contract or transaction in which a non-director designated employee (e.g., officers and other key decision-making employees) directly or indirectly has a material financial interest unless all of the requirements in the corporation's Conflict of Interest Code and applicable law have been fulfilled.

Section 2. AGAINST NEPOTISM. If a member of an officer's or employee's immediate family is to be hired to work in a position directly subordinate or supervisory to the officer or employee, that fact should be disclosed in advance to the Board of Directors so that a determination can be made whether to permit an exception to the normal prohibition against nepotism.

**ARTICLE XIII
LOANS TO DIRECTORS AND OFFICERS**

Section 1. LOANS TO DIRECTORS AND OFFICERS. This corporation shall not lend any money or property to or guarantee the obligation of any director or officer without the approval of the California Attorney General; provided, however, that the corporation may advance money to a director or officer of the corporation for expenses reasonably anticipated to be incurred in the performance of his or her duties if that director or officer would be entitled to reimbursement for such expenses of the corporation.

**ARTICLE XIV
INDEMNIFICATION**

Section 1. INDEMNIFICATION. To the fullest extent permitted by law, this corporation shall indemnify its directors, officers, employees, and other persons described in Corporations Code Section 5238(a), including persons formerly occupying any such positions, against all expenses, judgments, fines, settlements, and other amounts actually and reasonably incurred by them in connection with any "proceeding," as that term is used in that section, and including an action by or in the right of the corporation by reason of the fact that the person is or was a person described in that section. "Expenses," as used in this bylaw, shall have the same meaning as in that section of the Corporations Code.

On written request to the Board of Directors by any person seeking indemnification under Corporations Code Section 5238 (b) or Section 5238 (c) the Board of Directors shall promptly decide under Corporations Code Section 5238

(e) whether the applicable standard of conduct set forth in Corporations Code Section 5238 (b) or Section 5238 (c) has been met and, if so, the Board of Directors shall authorize indemnification.

**ARTICLE XV
INSURANCE**

Section 1. INSURANCE. This corporation shall have the right to purchase and maintain insurance to the full extent permitted by law on behalf of its directors, officers, employees, and other agents, to cover any liability asserted against or incurred by any director, officer, employee, or agent in such capacity or arising from the director's, officer's, employee's, or agent's status as such.

**ARTICLE XVI
MAINTENANCE OF CORPORATE RECORDS**

Section 1. MAINTENANCE OF CORPORATE RECORDS. This corporation shall keep:

- a. Adequate and correct books and records of account;
- b. Written minutes of the proceedings of the Board and committees of the Board; and
- c. Such reports and records as required by law.

**ARTICLE XVII
INSPECTION RIGHTS**

Section 1. DIRECTORS' RIGHT TO INSPECT. Every director shall have the right at any reasonable time to inspect the corporation's books, records, documents of every kind, physical properties, and the records of each subsidiary as permitted by California and federal law. The inspection may be made in person or by the director's agent or attorney. The right of inspection includes the right to copy and make extracts of documents as permitted by California and federal law. This right to inspect may be circumscribed in instances where the right to inspect conflicts with California or federal law (e.g., restrictions on the release of educational records under FERPA) pertaining to access to books, records, and documents.

Section 2. ACCOUNTING RECORDS AND MINUTES. On written demand on the corporation, any director may inspect, copy, and make extracts of the accounting books and records and the minutes of the proceedings of the Board of Directors and committees of the Board of Directors at any reasonable time for a purpose reasonably related to the director's interest as a director. Any such inspection and copying may be made in person or by the director's agent or attorney. This right of inspection extends to the records of any subsidiary of the corporation.

Section 3. MAINTENANCE AND INSPECTION OF ARTICLES AND BYLAWS. This corporation shall keep at its principal California office the original or a copy of the articles of incorporation and bylaws, as amended to the current date, which shall be open to inspection by the directors at all reasonable times during office hours. If the corporation has no business office in California, the Secretary shall, on the written request of any director, furnish to that director a copy of the articles of incorporation and bylaws, as amended to the current date.

Amended and Restated Bylaws of Magnolia Educational & Research Foundation
Adopted: 6/16/08 Amended: 4/19/12, 4/11/13, 12/12/13, 1/9/15, 2/16/15, 8/11/16, 10/26/16, 11/3/16,
10/11/18, [9/22/19](#)

Page 11 of 13

**ARTICLE XVIII
REQUIRED REPORTS**

Section 1. ANNUAL REPORTS. The Board of Directors shall cause an annual report to be sent to itself (the members of the Board of Directors) within 120 days after the end of the corporation's fiscal year. That report shall contain the following information, in appropriate detail:

- a. The assets and liabilities, including the trust funds, or the corporation as of the end of the fiscal year;
- b. The principal changes in assets and liabilities, including trust funds;
- c. The corporation's revenue or receipts, both unrestricted and restricted to particular purposes;
- d. The corporation's expenses or disbursement for both general and restricted purposes;
- e. Any information required under these bylaws; and
- f. An independent accountant's report or, if none, the certificate of an authorized officer of the corporation that such statements were prepared without audit from the corporation's books and records.

Section 2. ANNUAL STATEMENT OF CERTAIN TRANSACTIONS AND INDEMNIFICATIONS. The corporation shall comply with the reporting requirements of Corporations Code Section 6322.

**ARTICLE XIX
BYLAW AMENDMENTS**

Section 1. BYLAW AMENDMENTS. The Board of Directors may adopt, amend or repeal any of these Bylaws by a majority of the directors present at a meeting duly held at which a quorum is present, except that no amendment shall make any provisions of these Bylaws inconsistent with the corporation's Articles of Incorporation, or any laws. The Board of Directors may only amend these Bylaws provisions fixing the authorized number of directors or establishing procedures for the nomination or appointment of directors by unanimous vote of all directors then in office. This section may only be amended by the unanimous vote of the all the directors then in office.

**ARTICLE XX
FISCAL YEAR**

Section 1. FISCAL YEAR OF THE CORPORATION. The fiscal year of the corporation shall begin on July 1st and end on June 30th of each year.

CERTIFICATE OF SECRETARY

I certify that I am the duly elected and acting Secretary of the Magnolia Educational & Research Foundation, a California nonprofit public benefit corporation; that these amended and restated bylaws, consisting of **13** pages including this "Certificate of Secretary", are the bylaws of this corporation as adopted by the Board of Directors on September 22, 2019; and that these amended and restated bylaws have not been amended or modified since that date.

Ms. Barbara Torres
Secretary

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CONFLICT OF INTEREST CODE

FORMER VERSION
COI CODE

The Political Reform Act (Government Code Section 81000, et seq.) requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation (2 California Code of Regulations §18730) that contains the terms of a standard conflict of interest code, which can be incorporated by reference in an agency's code. After public notice and hearing, the standard code may be amended by the Fair Political Practices Commission to conform to amendments in the Political Reform Act. Therefore, the terms of 2 California Code of Regulations Section 18730 and any amendments to it duly adopted by the Fair Political Practices Commission are hereby incorporated by reference. This regulation and the attached Appendices, designating positions and establishing disclosure categories, shall constitute the conflict of interest code for the **Magnolia Educational & Research Foundation. (MERF)**

Individuals holding designated positions shall file statements of economic interests with the **MERF**, which will make the statements available for public inspection and reproduction (Government Code § 81008). All statements will be retained by **MERF**.

**APPENDIX A
DESIGNATED POSITIONS**

<u>Designated Positions</u>	<u>Disclosure Category</u>
Members of the Governing Board	1, 2
Corporate Officers (e.g., CEO/President, CFO/Treasurer, Secretary)	1, 2
Chief External Officer	1, 2
Regional Director – South	1, 2
Regional Director – North	1, 2
Chief Operations Officer	1, 2
Chief Academic Officer	1, 2
Chief Accountability Officer	1, 2
Principals	3
Consultants/New Positions	*

*Consultants/New Positions shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation:

The CEO/President or designee may determine in writing that a particular consultant or new position, although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements in this section. Such written determination shall include a description of the consultant’s or new position’s duties and, based upon that description, a statement of the extent of disclosure requirements. The CEO/President or designee’s determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code (Government Code § 81008).

APPENDIX B DISCLOSURE CATEGORIES

Category 1

Designated positions assigned to this category must report:

- a. Interests in real property located in whole or in part within a two-mile radius of:
 - The Los Angeles Unified School District, the Santa Ana Unified School District, or the San Diego Unified School District, or
 - Any facility utilized by MERF's charter schools, or
 - A proposed site for a MERF facility.
- b. Investments and business positions in business entities, or sources of income (including gifts, loans, and travel payments) that engage in the purchase or sale of real property or are engaged in building construction or design.

Category 2

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by MERF.

Category 3

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by the designated position's department. For the purpose of this category a Principal's department is his/her entire school.

This is the last page of the conflict of interest code for **Magnolia Educational & Research Foundation**.



CERTIFICATION OF FPPC APPROVAL

Pursuant to Government Code Section 87303, the conflict of interest code for **Magnolia Educational & Research Foundation** was approved on 11/11 2017. This code will become effective on 12/1 2017.

A handwritten signature in blue ink, appearing to be "B. Lau", written over a horizontal line.

Brian G. Lau
Senior Commission Counsel
Fair Political Practices Commission

**NEW VERSION
COI CODE**

**MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CONFLICT OF INTEREST CODE**

I. ADOPTION

In compliance with the Political Reform Act of 1974, California Government Code Section 87100, et seq., Magnolia Educational & Research Foundation (“MERF”) hereby adopts this amended Conflict of Interest Code (“Code”), which shall apply to all governing board members and all other designated employees of MERF, as specifically required by California Government Code Section 87300.

II. DEFINITION OF TERMS

As applicable to a California public charter school, the definitions contained in the Political Reform Act of 1974, the regulations of the Fair Political Practices Commission, specifically Title 2 of California Code of Regulations, Section 18730, and any amendments or modifications to the Act and regulations are incorporated by reference to this Code.

III. DESIGNATED EMPLOYEES

Employees of MERF, including uncompensated governing board members, who hold positions that involve the making or participation in the making, of decisions that may foreseeably have a material effect on any financial interest, shall be “designated employees.” The designated positions are listed in “Appendix A” attached to this policy and incorporated by reference herein.

IV. STATEMENT OF ECONOMIC INTERESTS: FILING

Each designated employee, including governing board members, shall file a Statement of Economic Interest (“Statement”) at the time and manner prescribed by Title 2 of California Code of Regulations, Section 18730, disclosing reportable investments, interests in real property, business positions, and income required to be reported under the category or categories to which the employee’s position is assigned in “Appendix A.”

An investment, interest in real property or income shall be reportable, if the business entity in which the investment is held, the interest in real property, the business position, or source of income may foreseeably be affected materially by a decision made or participated in by the designated employee by virtue of his or her position. The specific disclosure responsibilities assigned to each position are set forth in “Appendix B.”

Statements Filed with MERF. All Statements shall be supplied by, filed with, and retained by MERF. MERF’s filing official will make the statements available for public inspection and reproduction pursuant to Government Code Section 81008.

V. DISQUALIFICATION

No designated employee shall make, participate in making, or try to use his/her official position to influence any MERF decision which he/she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family.

VI. MANNER OF DISQUALIFICATION

A. Non-Governing Board Member Designated Employees

When a non-Governing Board member designated employee determines that he/she should not make a decision because of a disqualifying interest, he/she should submit a written disclosure of the disqualifying interest to his/her immediate supervisor. The supervisor shall immediately reassign the matter to another employee and shall forward the disclosure notice to the Chief Executive Officer, who shall record the employee’s disqualification. In the case of the Chief Executive Officer having the disqualifying interest, this determination and disclosure shall be made in writing to MERF Board of Directors.

B. Governing Board Member Designated Employees

MERF shall not enter into a contract or transaction in which a director directly or indirectly has a material financial interest (nor shall MERF enter into any contract or transaction with any other corporation, firm, association, or other entity in which one or more of MERF’s directors are directors and have a material financial interest).

APPROVED AND ADOPTED by the Board of Directors of on the _____ day of _____, 2019.

Chairperson, Board of Directors
MERF

ATTEST:

Secretary to the Board of Directors
MERF

APPENDIX A DESIGNATED POSITIONS

<u>Designated Positions</u>	<u>Disclosure Category</u>
Members of the Governing Board	1, 2
Corporate Officers (e.g., CEO/President, CFO/Treasurer, Secretary)	1, 2
Chief External Officer	1, 2
Regional Director – South	1, 2
Regional Director – North	1, 2
Chief Operations Officer	1, 2
Chief Academic Officer	1, 2
Chief Accountability Officer	1, 2
Principals	3
Consultants/New Positions	*

*Consultants/New Positions shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code, subject to the following limitation:

The CEO/President or designee may determine in writing that a particular consultant or new position, although a “designated position,” is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements in this section. Such written determination shall include a description of the consultant’s or new position’s duties and, based upon that description, a statement of the extent of disclosure requirements. The CEO/President or designee’s determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code (Government Code § 81008).

APPENDIX B DISCLOSURE CATEGORIES

Category 1

Designated positions assigned to this category must report:

- a. Interests in real property in whole or in part within a two-mile radius of:
 - The Los Angeles Unified School District, the Santa Ana Unified School District, or the San Diego Unified School District, or
 - Any facility utilized by MERF's charter schools, or
 - A proposed site for a MERF facility.
- b. Investments and business positions in business entities, or sources of income (including gifts, loans, and travel payments) that engage in the purchase or sale of real property or are engaged in building construction of design.

Category 2

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by MERF.

Category 3

Designated positions assigned to this category must report:

- a. Investments and business positions in business entities or sources of income (including receipt of gifts, loans, and travel payments) that are contractors engaged in the performance of work or services, or sources that manufacture, sell, repair, rent or distribute school supplies, books, materials, school furnishings or equipment of the type to be utilized by the designated position's department. For the purpose of this category a Principal's department is his/her entire school.

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
CONFLICT OF INTEREST POLICY

I. PURPOSE

The purpose of this Conflict of Interest Policy ("Policy") is to protect Magnolia Educational & Research Foundation's ("Charter School") interests when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Charter School. This Policy is intended to supplement, but not replace, (i) any applicable state and federal laws governing conflicts of interest applicable to California public charter schools; and (ii) the Charter School's Conflict of Interest Code, adopted pursuant to the Political Reform Act (Government Code Section 81000 et seq.) and Government Code Section 1090, et seq. as set forth in Education Code Section 47604.1, including the exhibits attached thereto.

II. DESIGNATED EMPLOYEES

Employees of this Charter School, including members of the Board of Directors ("Board") and candidates for election and/or appointment to the Board, who hold positions that involve the making or participation in the making, of decisions that may foreseeably have a material effect on any financial interest, shall be "designated employees." The designated positions are listed in "Appendix A," which is hereby incorporated by reference, attached to the Charter School's Conflict of Interest Code.

Deleted:

III. DISQUALIFICATION

No designated employee shall make, participate in making, or try to use his/her official position to influence any Charter School decision which he/she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family.

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Deleted: Board members shall disclose a disqualifying interest at the meeting during which consideration of the decision takes place. After disclosure of the disqualifying interest and all material facts, he/she shall leave the Board meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board members shall decide if a conflict of interest exists.

This disclosure shall be made part of the Board's meeting minutes. The Board meeting minutes shall include the names of the persons who disclosed or otherwise were found to have a disqualifying interest in connection with an actual or possible conflict of interest, the nature of the disqualifying interest, any action taken to determine whether a conflict of interest was present, and the Board's decision as to whether a conflict of interest in fact existed.

The Board member shall refrain from participating in the decision in any way (i.e. the Board member with the disqualifying interest shall refrain from voting on the matter and influencing or attempting to influence the vote on the matter) and comply with any applicable provisions of the Charter School bylaws.

IV. MANNER OF DISQUALIFICATION

A. Non-Board Member Designated Employees

When a non-Board member designated employee determines that he/she should not make a decision because of a disqualifying interest, he/she should submit a written disclosure of the disqualifying interest to his/her immediate supervisor. The supervisor shall immediately reassign the matter to another employee and shall forward the disclosure notice to the Charter School Principal who shall record the employee's disqualification. In the case of a designated employee who is head of an agency, this determination and disclosure shall be made in writing to his/her appointing authority.

B. Board Member Designated Employees

The Corporation shall not enter into a contract or transaction in which a director directly or indirectly has a material financial interest (nor shall the Corporation enter into any contract or transaction with any other corporation, firm, association, or other entity in which one or more of the Corporation's directors are directors and have a material financial interest).

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Cover Sheet

Approval of New Intern Position

Section: IV. Action Items
Item: G. Approval of New Intern Position
Purpose: Vote
Submitted by:
Related Material: IV G Intern.pdf



Board Agenda Item #	IV G Action Item
Date:	December 15, 2019
To:	MPS - Board of Directors
From:	Erdinc Acar, Chief Academic Officer
Staff Lead:	Ismael Soto, Director of Development & Communications
RE:	Recommend approval of new Grants Intern position

PROPOSED BOARD MOTION

I move that the board recommend approval of the new Grants Intern position to support the development work at the Magnolia Public Schools home office.

INTRODUCION

In 2019, under the new leadership of Alfredo Rubalcava-CEO & Superintendent, Magnolia Public Schools prioritized development work as key to its long-term success and sustainability. Ismael Soto – Director of Development and Communications built the infrastructure for the newly formed development and communications department at Magnolia with the creation of the Grants Management online Google portal. The portal aids in the management of all MPS development efforts including but not limited to:

1. Narrative
 - a. Organization description, Problem statement, Goals/Objectives, Target Populations, Challenges, Background and Experience, Intervention and Strategies, and Case for support
2. Permanent Folder
 - a. 501(C) 3, IRA Information, Business Plan, Staff biography's, etc.
3. Financials
 - a. Audited financials, Org 990, Operating budget, S&P Global Ratings, etc.
4. Grant Tracking
 - a. Google work folder that tracks:

- i. In progress grants, Reporting schedules, Directory of Foundations, Historical data

He is primarily responsible for developing and rolling out effective and efficient programs that identify, cultivate, track and solicit prospective government, and private and family foundation sources for gifts to fund the organization's identified priorities. It also includes boilerplate information including financials, narrative and permanent folder which contains items such as the Magnolia business plan and IRS tax information. With Ismael now a member of the academic team, he is now able to get first-hand information to inform grant focus areas. In addition, Ismael works closely with Erdinc Acar-Chief Academic Officer with one-on-one meetings to determine development and communications priorities. To date, we have successfully submitted The Joseph Drown Foundation grant in October for their December 2019 board meeting with a \$100K request for general operations, five separate Project Lead the Way, and one private foundation grant to be submitted prior to December 20 with an ask of \$100K in general support funding.

The Challenge:

The Development and Communications Department currently only consist of Ismael Soto – Director of Development and Communications and an outside contractor JMP Grants Consulting once grants have been identified. Unfortunately, his capacity limits the amount of time he is able to dedicate to prospecting, donor relations, and grant writing due to the enormous amount lower level work that is required. This includes, data gathering, research, and analysis.

Much of the work leading up to those grants including reporting is very time consuming and thus an intern would build capacity to address that gap. Also, as we look downstream, any intern coming on board could be a potential hire in the near future. Lastly, the intern would not replace the consultant, he/she would build capacity.

BACKGROUND

The Grants internship is intended for qualified applicants seeking hands-on experience in development and grant writing —especially related to nonprofits. Ideal candidates will have excellent written and verbal communication skills, a charismatic personality and self-starting attitude, and a strong interest and background in nonprofit work.

The Grant Writing intern will report to and work closely with and the Director of Development and Communications to build, maintain and further established grant and donor relations, and research and cultivate new relations. Additionally, the Director will also act as a mentor to help the professional growth of the intern.

Qualifications

- Excellent written and verbal communication skills required
- Excellent research abilities and meticulous attention to detail
- Previous experience with nonprofit fundraising (not required but preferred)
- An ability to commit to a minimum of 4 hours per week through June 2020
- A self-starting attitude and ability to maintain deadlines, multi-task, and work efficiently in a fast-paced environment without close supervision
- Strong ability to work both independently and collaboratively
- Computer literacy, especially with the Google drive platform and Microsoft Office Suite

Education

Current (Junior or Senior level) college student or completed an undergraduate degree in a relevant field (i.e. English, Communication, etc.)

BUDGET IMPLICATIONS

*** CFO reviewed and approved***

Funding for the grant intern position has been identified in the Academic department budget. If approved, a budget transfer will be made of \$4,000 from Object code 4340 Educational Software to 2900 Other Classified Staff for this position.

- 15.00 per hour
- Apx. 4 hours a week

EXHIBITS (attachments):

1. None