Magnolia Public Schools

Facility/Audit Committee Meeting

Date and Time
Thursday March 11, 2021 at 5:00 PM PST

Location
https://zoom.us/j/91684923522?pwd=SUFXL2ZFcU5MNTlsbFZyZHJRT3psZz09
Meeting ID: 916 8492 3522 **Passcode:** 100112
One tap mobile: +16699009128,,91684923522# US (San Jose)

Meeting Notice:

In compliance with the Americans with Disabilities Act (ADA) and upon request, Magnolia Public Schools may furnish reasonable auxiliary aids and services to qualified individuals with disabilities. Individuals who require appropriate alternative modification of the agenda in order to participate in Board meetings are invited to contact the MPS central office. If you need special assistance to attend the meeting or translation services, please notify Jennifer Lara at (213) 628-3634 x100 48 hours in advance of the meeting to make arrangements and accommodations.

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

Facilities Committee Members
Mr. Mekan Muhammedov, Chair
Ms. Diane Gonzalez
Mr. Haim Beliak
Dr. Umit Yapanel (alternate)

CEO and Superintendent
Mr. Alfredo Rubalcava

Agenda

	Purpose	Presenter	Time
I. Opening Items			**5:00 PM**

	Purpose	Presenter	Time
Opening Items			
A. Call the Meeting to Order			1 m
B. Record Attendance and Guests			1 m
C. Public Comments			5 m
D. Approval of Agenda	Vote		1 m
E. Approval of Minutes from Regular MPS Facilities Committee Meeting - December 9, 2020	Approve Minutes		1 m

Approve minutes for Regular Facilities Committee on December 9, 2020

II. Facility Committee- Recommended Action Items			**5:09 PM**
A. Approval of MSA-1 Design Contract	Vote	P.Ontiveros	10 m
B. Approval of Fiscal Year 2019-2020 Annual Independent Audit Reports	Vote	S.Orazov	7 m

III. Closing Items			**5:26 PM**
A. Adjourn Meeting	Vote		

Coversheet

Approval of Minutes from Regular MPS Facilities Committee Meeting - December 9, 2020

Section: I. Opening Items
Item: E. Approval of Minutes from Regular MPS Facilities Committee Meeting - December 9, 2020
Purpose: Approve Minutes
Submitted by:
Related Material: Minutes for Regular Facilities Committee on December 9, 2020

APPROVED

Magnolia Public Schools

Minutes

Regular Facilities Committee

Date and Time
Wednesday December 9, 2020 at 5:30 PM

Location
https://zoom.us/j/94639995785?pwd=NUxqRkl5ZnRYQVc1dlk3VCtKVzhRQT09
Meeting ID: 946 3999 5785
Passcode: 756137
One tap mobile
+16699009128,,94639995785# US (San Jose)

Meeting Notice:

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

Facilities Committee Members
Mr. Mekan Muhammedov, Chair
Ms. Diane Gonzalez
Mr. Haim Beliak

Ms. Sandra Covarrubias (alternate)

CEO and Superintendent
Mr. Alfredo Rubalcava

Committee Members Present
D. Gonzalez (remote), H. Beliak (remote), M. Muhammedov (remote), S. Covarrubias (remote)

Committee Members Absent
None

Committee Members who arrived after the meeting opened
H. Beliak

I. Opening Items

A. Call the Meeting to Order

M. Muhammedov called a meeting of the Audit/Facilities Committee Committee of Magnolia Public Schools to order on Wednesday Dec 9, 2020 at 5:34 PM.

B. Record Attendance and Guests

Refer to attendance information reported above.

C. Public Comments

No public comments was given at this time.

D. Approval of Agenda

D. Gonzalez made a motion to approve the agenda.
M. Muhammedov seconded the motion.
The committee **VOTED** to approve the motion.

Roll Call

S. Covarrubias	Aye
M. Muhammedov	Aye
H. Beliak	Absent
D. Gonzalez	Aye

E. Approval of Minutes from Regular MPS Facilities Committee Meeting - January 15, 2019

S. Covarrubias made a motion to approve the minutes from Regular Facility Committee Meeting on 01-15-19.

D. Gonzalez seconded the motion.
The committee **VOTED** to approve the motion.

Roll Call

M. Muhammedov	Aye
S. Covarrubias	Aye
D. Gonzalez	Aye
H. Beliak	Absent

II. Facility Committee- Recommended Action Items

A. Approval of MPS Staff to Respond to Letter of Intent and Negotiate Purchase and Sale Agreement

P.Ontiveros, General Counsel & Director of Facilities, presented to the Committee updates regarding the skating rink project that the City of Los Angeles has sought to build on the parcel of land adjacent to Magnolia Science Academy-1 High School's parking lot. The City of Los Angeles presented Magnolia Public Schools a non-binding letter of intent to begin conversations of a formal purchase and sale agreement. The Committee was presented with visual exhibits of the parcel's. If the Committee approves, it would be taken to the full Board of Directors to approve for the CEO & Superintendent, A. Rubalcava, to sign the non-binding letter of intent presented by the City of Los Angeles and to begin negotiations to prepare for a purchase and sale agreement.
M. Muhammedov made a motion to recommend and move for the Board to approve the following actions: (1) the MPS CEO and Superintendent sign the non-binding letter of intent presented by the City of Los Angeles for the purchase by the City of a portion of the parking lot that serves the MSA-1 high school located at 18220 Sherman Way, (2) the MPS Staff negotiate a final purchase and sale agreement for the property including, but not limited to, a fair and reasonable sales price and hire such vendors and consultants as may be needed, with such final agreement to be presented to the Committee and MPS Board of Directors for final approval prior to signature, and (3) the MPS CEO and Superintendent sign any permits and requests required by the City of Los Angeles Planning Department to commence a lot line adjustment, subdivision or any other action that may be required to complete the purchase and sale transaction if approved by the MPS Board of Directors.
D. Gonzalez seconded the motion.
The committee **VOTED** unanimously to approve the motion.

Roll Call

D. Gonzalez	Aye
S. Covarrubias	Aye
M. Muhammedov	Aye
H. Beliak	Absent

B. Approval of MSA-1 Franco Architects Design Contract

H. Beliak arrived at 5:50 PM.

S.Covarrubias stayed as a member of the public.
P.Ontiveros, General Counsel & Director of Facilities, presented to the Committee an agreement from Franco Architects, for the purposes of design and engineering services for capital improvements at Magnolia Science Academy-1. He outlined the scope of work Magnolia Public Schools (MPS) is requesting from Franco Architects. H.Beliak, MPS Board Chair, had concerns with using this architect due to a previous project that left MPS having to take a financial burden over an oversight. M.Muhammedov, Chair for the Audit/Facilities Committee, asked if the scope of work that MPS is looking for is best suited with what Franco Architects has to offer to which staff replied yes. A.Rubalcava, CEO & Superintendent, ensures that they will hold Franco Architects more accountable and takes into account these concerns and expectations.
M. Muhammedov made a motion to recommend and move that the Board approve the architect agreement from Franco Architects Inc. for design and engineering services for certain capital improvement projects at Magnolia Science Academy—1.
D. Gonzalez seconded the motion.
The committee **VOTED** to approve the motion.

Roll Call

H. Beliak	No
D. Gonzalez	Aye
M. Muhammedov	Aye

III. Closing Items

A. Adjourn Meeting

There being no further business to be transacted, and upon motion duly made, seconded and approved, the meeting was adjourned at 6:52 PM.

Respectfully Submitted,
M. Muhammedov

Coversheet

Approval of MSA-1 Design Contract

Section:	II. Facility Committee- Recommended Action Items
Item:	A. Approval of MSA-1 Design Contract
Purpose:	Vote
Submitted by:	
Related Material:	Architect Selection for MSA-1 Projects (Committee).pdf

MAGNOLIA PUBLIC SCHOOLS

Agenda Item #:	II A: Action Item
Date:	March 11, 2021
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools ("**MPS**") Facilities Committee (the "**Committee**")
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Patrick Ontiveros, General Counsel & Director of Facilities
RE:	Approval of MSA-1 Design Contract for Capital Improvement Projects

I. Proposed Recommendation(s)

Staff recommends that the Committee approves the selection of Franco Architects Inc. for design and engineering services for certain capital improvement projects (collectively, the "**Project**") at Magnolia Science Academy—1 ("**MSA-1**") and that the Committee further recommends and moves that the Board of Directors of MPS approve the same.

II. Background

MSA-1 filed for and received a zone change for its parking lot parcels from the City of Los Angeles. As a condition to the zone change, MSA-1 agreed to make certain improvements to the parcel that serves the MSA-1 middle school building. They include the following: (1) the fixing of drainage on the middle school parking lot; (2) the creation of an open green space and a concrete pad with a solar shade; (3) fencing surrounding the entire MSA-1 parking lot parcels; (4) the creation of a track; and (5) the installation of modular outdoor restrooms. MSA-1 wishes to undertake these improvements because it will assist the school during the current pandemic to allow for activities to take place outside. Looking to the future, having a good recreation and outdoor space will benefit the students and may in fact attract more students to the campus.

An architect's services are also needed to (1) obtain permits for the construction of the block wall at the back of the middle school parking lot , (2) modify the first floor interior of the middle school building to be level (the middle of the first floor is sunk as compared to the rest of the first floor) and (3) propose a paint scheme for the middle school building to complement the newly constructed high school building. The block wall at the rear of the middle school parking lot is required to be constructed under a settlement agreement with the neighbors who share the wall. MSA-1 would like to make the first floor level in order to increase the utility of the space.

In addition, in the current pandemic it is critical to undertake the Project now to provide MSA-1 the opportunity to use the outdoors for instruction.

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III. Procurement

A. Architect Selection

Staff solicited bids from four (4) design firms -- Franco Architects, Berliner Architects, CannonDesign (fka gkkworks), and David Ke Design Studio. Franco Architects was the architect for the MSA-1 high school building which included the redesign of the grading and drainage on the parking lot serving the high school building. Franco Architects also assisted with some of the master plan design work for the middle school parking lot that resulted in a zone change from "parking" to "commercial". Berliner was the architect of record on the MSA-Santa Ana project. Berliner also completed a feasibility study for MSA-1 on or about October 2012 so is familiar with the MSA-1 site. Before it was acquired by CannonDesign, gkkworks assisted with the master planning of the middle school and high school parking lots during the zone change application. CannonDesign is a large architecture and design firm with offices in most major U.S. cities. David Ke is a small design firm with whom we have not worked before. The firm had previously introduced itself to Staff. Based on its experience and thoughtful approach to design, Staff elected to include it in the RFP.

B. Bids

The original bid amounts received from each architect are summarized below. Each of Berliner Architects, CannonDesign, and David Ke explicitly noted what work was excluded from their scope while Franco Architects's bid did not. For example, Berliner Architects indicated that its fee was premised on a modular restroom being procured. If it was decided that the modular restroom was not cost effective or suitable then the its fee would increase to include the design of the restroom. It also indicated that it would evaluate pre-engineered solar shade structures versus a site built structure and if a structure needed to be designed, it would have to increase its fee.

Firm	Bid
Franco Architects	$61,000
Berliner Architects	$201,415
CannonDesign (fka gkkworks)	$314,000
David Ke Design Collaborative Studio	$175,930

Because CannonDesign's bid was significantly higher than the next highest bid, Staff ruled them out. A more detailed breakdown of each of the three other design firms' bids is set forth below.

	Design Firm			
Category of Work	**Franco Architects* Cost**	**Berliner Architects Firm / Cost**	**David Ke DCS Firm / Cost**	
Structural	Not Specified	$30,000.00		$7,500.00
Electrical	Not Specified	$12,150.00		$25,000.00
Plumbing	Not Specified	included in structural fees		$0.00
Civil	Not Specified	$41,000.00		$14,135.00
Landscape	Not Specified	$9,150.00		$52,730.00

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	Design Firm			
Category of Work	**Franco Architects* Cost**	**Berliner Architects Firm / Cost**	**David Ke DCS Firm / Cost**	
Geotech	Not Specified	Not included		$6,900.00
Architecture Fee†	Not Specified	$99,615.00		$69,665.00
Reimbursable Fees (estimate)	At Cost/ Not Specified	$9,500.00‡	Not specified	
TOTAL	**$61,000.00**	**$201,415.00**		**$175,930.00**

Notes:

* Franco Architect broke down their fees by effort.
- Site Work (track, field, landscaping, site plumbing engineering)
- Proto Wall Permit
- Raising the floor on the first floor of the middle school building
- Design paint scheme for middle school building

† Berliner Architecture Fee is consists of both an architect's fee and a subcontractor coordination fee

‡ Cost plus 7.5%

Staff originally recommended that the Committee approve the selection of Franco Architects as the architect. Concerned about the disparity between the Franco bid and the other bids, the Committee asked Staff to delve further into the bids to insure that no scope was missing from the Franco bid. Since CannonDesign's bid is 55% greater than the next largest bid from Berliner Architects, Staff did not pursue their bid any further. Staff also used this opportunity to approach Berliner and David Ke to challenge them to tighten up their bid (i.e., lower it) and to split it into two scopes – the site work and the middle school structural work. Franco Architects was also directed to split their scope into the two scopes and provide a breakdown by subcontractor. Moreover, due to its dismal performance on the high school construction project, Franco Architects was instructed to substitute a different plumbing engineer for the original plumbing engineer, Hyle Engineering.

C. *RFP Revised Bids*

Each of Franco Architects, Berliner Architects and David Ke submitted revisions to their original estimates. Franco Architects clarified the exclusions to their bid. A summary of the revised bids is shown below.

Firm / Scope	Bid
Franco Architects	
Site Work	$38,900.00
Middle School Bldg	$35,000.00
TOTAL	**$73,900.00**
Berliner Architects	
Site Work	$184,043.00†
Middle School Bldg	$21,400.00
TOTAL	**$205,443.00**

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Firm / Scope	Bid
David Ke DCS	
Site Work	$150,775.00‡
Middle School Bldg	$7,200.00
TOTAL	**$157,975.00**

Notes:

† Berliner includes "off-site work" as part of this scope – street improvements & alley improvements

‡ David Ke included off site work as an alternate. For illustrative purposes, the amount $5,300 is added to the site work of $145,475.

A more detailed breakdown of each of the firms revised bids by Scope is set forth below.

Site Improvements

	Design Firm		
Category of Work	**Franco Architects* Cost**	**Berliner Architects Cost**	**David Ke DCS Cost**
Structural	$2,200.00	$25,000.00	$7,500.00
Electrical	$4,300.00	$11,150.00	$23,000.00
Plumbing	$3,700.00	Not Included	Not Included
Civil	$4,000.00	$36,000.00	$17,800.00
Landscape	$5,700.00	$9,150.00	$41,310.00
Geotech	Not included	Not included	$6,900.00
Architecture Fee	$19,000.00	$90,000.00	$54,265.00
Reimbursable Fees (estimate)	Not included	$4,065.00	Not Included
TOTAL	**$38,900.00**	**$184,043.00**	**$150,775.00**

Middle School Building Improvements

	Design Firm		
Category of Work	**Franco Architects Cost**	**Berliner Architects Firm / Cost**	**David Ke DCS Firm / Cost**
Structural	$12,500.00	$5,000.00	$0.00
Electrical	Not Included	$3,000.00	$0.00
Architecture Fee†	$22,500.00	$12,000.00	$7,200.00
Sub Coordination Fee	Not Included	$400.00	$0.00
Reimbursable Fees (estimate)	Not Included	$1,000.00	$0.00

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Middle School Building Improvements

	Design Firm		
Category of Work	**Franco Architects Cost**	**Berliner Architects Firm / Cost**	**David Ke DCS Firm / Cost**
TOTAL	**$35,000.00**	**$21,400.00**	**$7,200.00**

Staff reviewed the revised proposals for completeness. Staff is satisfied that the proposals included all pertinent scope. In particular, Franco Architects clarified the exclusions from its scope.

In order to "normalize" the bids so that they all include the same costs, Staff created the following table to include any costs included by one architect but not others that may be reasonably anticipated to be part of the Project.

All Scope

	Design Firm		
Category of Work	**Franco Architects* Cost**	**Berliner Architects Cost**	**David Ke DCS Cost**
Structural	$14,500.00	$30,000.00	$61,465.00
Electrical	***$23,000.00****	$14,150.00	$23,000.00
Plumbing	$3,700.00	***$3,700.00****	***$3,700.00****
Civil	$17,800.00	$36,000.00	$17,800.00
Landscape	***$9,150.00****	$9,150.00	$41,310.00
Geotech	***$6,900.00****	***$6,900.00****	$6,900.00
Elevator Engineer	***$10,000.00****	***$10,000.00****	***$10,000.00****
Architecture Fee	$19,000.00	$102,000.00	$54,265.00
Sub Coordination Fee†	$0.00	$4,465.00	$0.00
Reimbursable Fees (estimate)	***$9,500.00****	$9,678.00	***$9,500.00****
TOTAL	**$113,550.00**	**$226,043.00**	**$227,940.00**

Notes:

* Adjusted amounts

† No consultant coordination fees are added to either Franco Architects or David Ke fees

None include an elevator engineer. Berliner Architects included estimates for reimbursable expenses but the other firms did not. Therefore, appropriate allowances were included in the table above for each of these two categories.

For all proposals, all assume that the solar shade structure and the restroom structure will be "design build" or "modular", meaning that a vendor will be identified and they will be responsible for designing and permitting the structure. Each design firm will assist in identifying vendors to provide these services.

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IV. Conclusion

Each of the design firms that responded to the targeted RFP are capable and talented architects. However, based on the revised RFP responses and their respective fees, Staff recommends that Franco Architects be selected to provide the design services for the Project. Their price is the most affordable even accounting for exclusions. Staff is satisfied that both scopes of work are sufficiently straightforward – for example, the requirements for the site work are clearly laid out in the zone change documents. None of the issues from the high school new construction project that caused delays and cost over-runs (a roof top play area, for example) are present.

To double check its conclusion, Staff discussed the Project with Oltmans Construction, the general contractor that constructed the high school building. They opined that none of the change orders from the high school project were red flags for them, except that they did not find the plumbing engineer's performance adequate. The plumbing engineer in their original proposal was replaced in the revised proposal per Staff's request.

Coversheet

Approval of Fiscal Year 2019-2020 Annual Independent Audit Reports

Section:	II. Facility Committee- Recommended Action Items
Item:	B. Approval of Fiscal Year 2019-2020 Annual Independent Audit Reports
Purpose:	Vote
Submitted by:	
Related Material:	FY2019-2020 Annual Independent Audit Reports (Committee).pdf

MAGNOLIA
PUBLIC SCHOOLS

Board Agenda Item #	II B: Action Item
Date:	March 11, 2021
To:	MPS Audit/Facilties Committee
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Serdar Orazov, Chief Financial Officer
RE:	Approval of Annual Independent Audit Reports for FY19-20

Proposed Board Motion

Motion for the Audit/Facilities Committee to recommend to the Board for the approval of the annual Independent Audit Reports for fiscal year 2019-20 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 charter school 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 reports annually and submit to our various oversight entities by December 15. However, due to Covid-19 pandemic the deadline was extended through March 31, 2021.

In an audit engagement:

- The auditor explains that preparing the financial statements and maintaining sound internal control is management responsibility;

- The auditor explains its owns 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 2019-20 states that the financial statements present fairly, in all material aspects, the respective financial position of the Charter School, as of June 30, 2020. 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

1. Exhibits (attachments):
   a) 2019-20 Audit Reports for each MPS school
   b) 2019-20 MERF and Consolidated Audit Report

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy
Charter No. 0438

Magnolia Science Academy
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy
Reseda, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 2,636,263	$ 2,939,938
Accounts receivable	1,343,289	1,273,139
Intercompany receivable	-	849,433
Prepaid expenses	107,966	2,059
Total current assets	4,087,518	5,064,569
Non-current assets		
Capital contribution	161,923	161,923
Property and equipment, net	3,539,439	753,215
Total non-current assets	3,701,362	915,138
Total assets	$ 7,788,880	$ 5,979,707
Liabilities		
Current liabilities		
Accounts payable	$ 1,247,311	$ 1,002,872
Refundable advance	-	13,462
Refundable advance - Paycheck Protection Program (PPP)	789,701	-
Intracompany payable	449,753	101,215
Total liabilities	2,486,765	1,117,549
Net Assets		
Without donor restrictions	5,302,115	4,862,158
Total liabilities and net assets	$ 7,788,880	$ 5,979,707

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 7,240,548	$ 6,399,704
Federal revenue	765,438	663,788
Other state revenue	1,608,028	1,863,464
Local revenues	80,955	323,831
Total support and revenues	9,694,969	9,250,787
Expenses		
Program services	5,269,036	5,181,054
Management and general	3,985,976	4,019,419
Total expenses	9,255,012	9,200,473
Change in Net Assets	439,957	50,314
Net Assets, Beginning of Year	4,862,158	4,811,844
Net Assets, End of Year	$ 5,302,115	$ 4,862,158

Magnolia Science Academy
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 3,035,792	$ 731,775	$ 3,767,567
Employee benefits	477,360	2,684	480,044
Payroll taxes	1,228,406	174,737	1,403,143
Fees for services	-	477,299	477,299
Advertising and promotions	-	14,161	14,161
Office expenses	35,572	4,287	39,859
Information technology	20,694	-	20,694
Occupancy	-	1,584,779	1,584,779
Travel	-	2,754	2,754
Depreciation	68,205	-	68,205
Insurance	-	45,632	45,632
Other expenses	72,152	87,342	159,494
Capital outlay	76,471	-	76,471
Special education	56,110	-	56,110
Instructional materials	113,540	-	113,540
Nutrition	13,041	-	13,041
District oversight fees	71,693	-	71,693
Management fees	-	860,526	860,526
Total functional expenses	$ 5,269,036	$ 3,985,976	$ 9,255,012

See Notes to Financial Statements

Magnolia Science Academy
Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 439,957	$ 50,314
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	68,205	71,472
Changes in operating assets and liabilities		
Accounts receivable	(70,150)	76,036
Intercompany receivable	849,433	(261,033)
Prepaid expenses	(105,907)	258,620
Accounts payable	244,439	735,307
Deferred revenue	(13,462)	13,462
Refundable advance - PPP	789,701	-
Intercompany payable	348,538	(48,327)
Net Cash from Operating Activities	2,550,754	895,851
Cash Flows used for Investing Activities		
Purchases of property and equipment	(2,854,429)	-
Net Change in Cash	(303,675)	895,851
Cash, Beginning of Year	2,939,938	2,044,087
Cash, End of Year	$ 2,636,263	$ 2,939,938
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Magnolia Science Academy
Charter school number authorized by the State: 0438
Magnolia Science Academy (the Organization) is a charter school located in Reseda, California that provides education for grades six through twelve. The Organization 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. The Organization is economically dependent on Federal and State funding.

Other Related Entity

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

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 the Organization.

MPM Sherman Way, LLC
The Organization formed the MPM Sherman Way, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The MSA makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA Reseda Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. 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 Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for state programs.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

Capital Contribution

MSA invested $161,923 in a capital contribution to the MPM Sherman Way, LLC as an investment for the building improvement located at 18238 Sherman Way in the city of Reseda, CA 91335 for its campus location.

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $789,701 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $789,701 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 2,636,263	$ 2,939,938
Accounts receivable	1,343,289	1,273,139
Intercompany receivable	-	849,433
Total	$ 3,979,552	$ 5,062,510

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020 MSA	2019 Consolidated
Leasehold improvements	$ 2,360,135	$ -
Building	226,898	-
Computer and equipment	422,141	422,141
Work in progress	960,171	692,775
Total property and equipment	3,969,345	1,114,916
Less accumulated depreciation	(429,906)	(361,701)
Total	$ 3,539,439	$ 753,215

Note 4 - Operating Lease

MSA entered into a lease agreement with MPM Sherman Way, LLC in which the MSA will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $1,295,589, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
2025	1,312,995
Thereafter	25,942,689
Total	$ 32,458,849

Note 5 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 41,766	$ -
Designated for state programs	80,388	721,439
Undesignated	5,179,961	4,140,719
Total net assets without donor restrictions	$ 5,302,115	$ 4,862,158

Note 6 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $499,271.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $119,214.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $371,606 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $124,649 in these financial statements.

Note 7 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 8 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy

ORGANIZATION

Magnolia Science Academy (the Organization) (Charter Number 0438) was granted on December 20, 2016, by Los Angeles County of Education for a five year period ending June 30, 2022. The Organization operates one school, grades six through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Mustafa Sahin	Principal

Magnolia Science Academy
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 79CF7028	Annual Report B317A63D
Regular ADA		
Sixth	121.26	121.26
Seventh and eighth	209.37	209.37
Ninth through twelfth	293.27	293.27
Total Regular ADA	623.90	623.90
Classroom Based ADA		
Sixth	121.26	121.26
Seventh and eighth	209.37	209.37
Ninth through twelfth	293.27	293.27
Total Classroom Based ADA	623.90	623.90

See Note to Supplementary Information

Magnolia Science Academy
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,004	181	N/A	Complied
Grade 7		65,004	181	N/A	Complied
Grade 8		65,004	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,004	181	N/A	Complied
Grade 10		65,004	181	N/A	Complied
Grade 11		65,004	181	N/A	Complied
Grade 12		65,004	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 5,138,251
Increase in	
Accounts receivable	157,448
Prepaid expenses	107,966
Accounts payable	(101,550)
Balance, June 30, 2020, Audited Financial Statements	$ 5,302,115

See Note to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy
Reseda, California

Report on State Compliance
We have audited Magnolia Science Academy's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

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

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Charter School.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable, prepaid expenses, and accounts payable were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 2
Charter No. 0906

Magnolia Science Academy 2
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 2
Van Nuys, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 2 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 2
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 2,288,348	$ 1,158,184
Accounts receivable	803,707	576,220
Intercompany receivable	-	153,812
Prepaid expenses	2,197	1,091
Total current assets	3,094,252	1,889,307
Non-current assets		
Property and equipment, net	149,268	46,055
Total assets	$ 3,243,520	$ 1,935,362
Liabilities		
Current liabilities		
Accounts payable	$ 1,034,276	$ 863,201
Refundable advance	-	11,351
Refundable advance - Paycheck Protection Program (PPP)	632,270	-
Intracompany payable	-	44,258
Total liabilities	1,666,546	918,810
Net Assets		
Without donor restrictions	1,576,974	1,016,552
Total liabilities and net assets	$ 3,243,520	$ 1,935,362

See Notes to Financial Statements

Magnolia Science Academy 2
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 4,795,130	$ 4,605,903
Federal revenue	252,373	297,621
Other state revenue	621,972	736,395
Local revenues	279,455	74,393
Total support and revenues	5,948,930	5,714,312
Expenses		
Program services	3,644,323	3,662,734
Management and general	1,744,185	2,152,256
Total expenses	5,388,508	5,814,990
Change in Net Assets	560,422	(100,678)
Net Assets, Beginning of Year	1,016,552	1,117,230
Net Assets, End of Year	$ 1,576,974	$ 1,016,552

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 2
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 2,342,487	$ 488,614	$ 2,831,101
Employee benefits	340,262	-	340,262
Payroll taxes	618,238	124,935	743,173
Fees for services	-	73,614	73,614
Advertising and promotions	-	9,954	9,954
Office expenses	34,969	9,836	44,805
Information technology	11,210	-	11,210
Occupancy	-	170,077	170,077
Travel	-	2,693	2,693
Depreciation	59,061	-	59,061
Insurance	-	28,137	28,137
Other expenses	48,158	56,474	104,632
Capital outlay	26,021	-	26,021
Special education	50,348	-	50,348
Instructional materials	59,132	-	59,132
Nutrition	7,015	-	7,015
District oversight fees	47,422	-	47,422
Management fees	-	779,851	779,851
Total functional expenses	$ 3,644,323	$ 1,744,185	$ 5,388,508

See Notes to Financial Statements

Magnolia Science Academy 2

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 560,422	$ (100,677)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	59,061	69,484
Changes in operating assets and liabilities		
Accounts receivable	(227,487)	(54,366)
Intercompany receivable	153,812	(91,635)
Prepaid expenses	(1,106)	86,172
Accounts payable	171,075	133,817
Refundable advance	(11,351)	11,351
Refundable advance - PPP	632,270	-
Intercompany payable	(44,258)	9,194
Net Cash from Operating Activities	1,292,438	63,340
Cash Flows used for Investing Activities		
Purchases of property and equipment	(162,274)	-
Net Change in Cash	1,130,164	63,340
Cash, Beginning of Year	1,158,184	1,094,844
Cash, End of Year	$ 2,288,348	$ 1,158,184
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

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 (the Organization) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 435 students. The Organization 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 June 30, 2022. The Organization 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.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $632,270 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $632,270 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 2,288,348	$ 1,158,184
Accounts receivable	803,707	576,220
Intercompany receivable	-	153,812
Total	$ 3,092,055	$ 1,888,216

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Building	$ 10,061	$ 10,061
Computer and equipment	562,450	379,284
Work in progress	-	20,892
Total property and equipment	572,511	410,237
Less accumulated depreciation	(423,243)	(364,182)
Total	$ 149,268	$ 46,055

Note 4 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for state programs	$ 25,264	$ 284,380
Undesignated	1,551,710	732,173
Total net assets without donor restrictions	$ 1,576,974	$ 1,016,553

Note 5 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $346,307.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $99,541.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $189,542 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $63,579 in these financial statements.

Note 6 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 7 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy 2

ORGANIZATION

Magnolia Science Academy 2 (the Organization) (Charter Number 0906) was granted on July 1, 2002, by Los Angeles County Office of Education for a five year period ending June 30, 2022. The Organization operates one school, grades six through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
David Garner	Principal

Magnolia Science Academy 2
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 84139A7B	Annual Report D948E5DB
Regular ADA		
Sixth	91.43	91.43
Seventh and eighth	162.77	162.77
Ninth through twelfth	165.16	165.16
Total Regular ADA	419.36	419.36
Classroom Based ADA		
Sixth	91.43	91.43
Seventh and eighth	162.77	162.77
Ninth through twelfth	165.16	165.16
Total Classroom Based ADA	419.36	419.36

See Note to Supplementary Information

Magnolia Science Academy 2
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		64,612	181	N/A	Complied
Grade 7		64,612	181	N/A	Complied
Grade 8		64,612	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,812	181	N/A	Complied
Grade 10		64,812	181	N/A	Complied
Grade 11		64,812	181	N/A	Complied
Grade 12		64,812	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 2

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 1,600,557
Decrease in	
Accounts receivable	(87,746)
Accounts payable	64,057
Increase in	
Prepaid expenses	106
Balance, June 30, 2020, Audited Financial Statements	$ 1,576,974

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 2

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 2
Van Nuys, California

Report on State Compliance
We have audited Magnolia Science Academy 2's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable, prepaid expenses, and accounts payable were not recorded and accounted for.

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 making it difficult to implement this level of internal control to monitor year end accruals.

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.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

FINAL DRAFT 3.5.2021

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 3
Charter No. 0917

Magnolia Science Academy 3
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 3
Carson, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 3 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 3
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 1,393,344	$ 991,716
Accounts receivable	766,829	777,695
Intercompany receivable	-	6,759
Prepaid expenses	833	613
Total current assets	2,161,006	1,776,783
Non-current assets		
Property and equipment, net	32,056	22,224
Total assets	$ 2,193,062	$ 1,799,007
Liabilities		
Current liabilities		
Accounts payable	$ 764,750	$ 730,926
Refundable advance	-	11,368
Refundable advance - Paycheck Protection Program (PPP)	627,597	-
Intracompany payable	-	9,705
Total liabilities	1,392,347	751,999
Net Assets		
Without donor restrictions	800,715	1,047,008
Total liabilities and net assets	$ 2,193,062	$ 1,799,007

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 3

Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 5,140,719	$ 5,190,998
Federal revenue	264,608	253,403
Other state revenue	807,212	925,719
Local revenues	45,934	66,432
Total support and revenues	6,258,473	6,436,552
Expenses		
Program services	3,759,580	3,762,176
Management and general	2,745,186	2,691,085
Total expenses	6,504,766	6,453,261
Change in Net Assets	(246,293)	(16,709)
Net Assets, Beginning of Year	1,047,008	1,063,717
Net Assets, End of Year	$ 800,715	$ 1,047,008

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 3
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 2,354,446	$ 794,867	$ 3,149,313
Employee benefits	344,071	8,000	352,071
Payroll taxes	569,803	205,775	775,578
Fees for services	-	168,990	168,990
Advertising and promotions	-	9,328	9,328
Office expenses	45,201	49,400	94,601
Information technology	15,954	-	15,954
Occupancy	-	560,478	560,478
Depreciation	6,440	-	6,440
Insurance	-	27,797	27,797
Other expenses	84,265	60,025	144,290
Capital outlay	29,457	-	29,457
Special education	132,781	-	132,781
Instructional materials	113,807	-	113,807
Nutrition	12,038	-	12,038
District oversight fees	51,317	-	51,317
Management fees	-	860,526	860,526
Total functional expenses	$ 3,759,580	$ 2,745,186	$ 6,504,766

See Notes to Financial Statements

Magnolia Science Academy 3
Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ (246,293)	$ (16,709)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	6,440	63,804
Changes in operating assets and liabilities		
Accounts receivable	10,866	(336,947)
Intercompany receivable	6,759	(155)
Prepaid expenses	(220)	1,130
Accounts payable	33,823	522,288
Refundable advance	(11,368)	11,368
Refundable advance - PPP	627,597	-
Intercompany payable	(9,705)	6,800
Net Cash from Operating Activities	417,899	251,579
Cash Flows used for Investing Activities		
Purchases of property and equipment	(16,271)	-
Net Change in Cash	401,628	251,579
Cash, Beginning of Year	991,716	740,137
Cash, End of Year	$ 1,393,344	$ 991,716
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

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 (the Organization) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 497 students. The Organization 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 June 30, 2022. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $627,597 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $627,597 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 1,393,344	$ 991,716
Accounts receivable	766,829	777,695
Intercompany receivable	-	6,759
Total	$ 2,160,173	$ 1,776,170

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 283,698	$ 250,814
Work in progress	-	16,613
Total property and equipment	283,698	267,427
Less accumulated depreciation	(251,642)	(245,203)
Total	$ 32,056	$ 22,224

Note 4 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 13,752	$ -
Designated for state programs	83,433	362,240
Undesignated	703,530	684,770
Total net assets without donor restrictions	$ 800,715	$ 1,047,010

Note 5 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $333,594.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $145,969.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $177,866 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $59,662 in these financial statements.

Note 6 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 7 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy 3

ORGANIZATION

Magnolia Science Academy 3 (the Organization) (Charter Number 0917) was granted on December 20, 2016, by the Los Angeles County Office of Education for a five year period ending June 30, 2022. The Organization operates one school, grades six through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Zekeriya Ocel	Principal

Magnolia Science Academy 3
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 1C81804C	Annual Report 05034F31
Regular ADA		
Sixth	62.79	62.79
Seventh and eighth	183.19	183.19
Ninth through twelfth	222.16	222.16
Total Regular ADA	468.14	468.14
Classroom Based ADA		
Sixth	62.79	62.79
Seventh and eighth	183.19	183.19
Ninth through twelfth	222.16	222.16
Total Classroom Based ADA	468.14	468.14

See Note to Supplementary Information

Magnolia Science Academy 3

Schedule of Instructional Time

Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,184	181	N/A	Complied
Grade 7		65,184	181	N/A	Complied
Grade 8		65,184	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,184	181	N/A	Complied
Grade 10		65,184	181	N/A	Complied
Grade 11		65,184	181	N/A	Complied
Grade 12		65,184	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 3
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 794,205
Decrease in	
Accounts receivable	(17,005)
Prepaid expenses	(333)
Accounts payable	23,848
Balance, June 30, 2020, Audited Financial Statements	$ 800,715

See Note to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 57 days due to the pandemic. As a result, the Organization received credit for these 57 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 3

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Magnolia Science Academy 3
Carson, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 3 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

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

Compliance and Other Matters

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

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

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 3
Carson, California

Report on State Compliance
We have audited Magnolia Science Academy 3's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	Procedures Performed
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	No, see below

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

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Basis for Qualified Opinion on After School Education and Safety Program

As described in the accompanying Schedule of State Compliance Findings and Questioned Costs, the Organization did not comply with requirements regarding *After School Education and Safety Program* as item 2020-001. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements referred to above.

Qualified Opinion on After School Education and Safety Program
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Template Binders complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2020.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of State Compliance Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Unmodified Opinion on Each of the Other Programs
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020, except as described in the accompanying *Schedule of State Compliance Findings and Questioned Costs.*

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified *

Unmodified for all programs except for the following program which was qualified:

Name of Program
* After School Education and Safety Program

None report.

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The following finding represent an instance of noncompliance relating to compliance with state laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2020-001 Code 40000

Criteria or Specific Requirements

According to the *California Education Code* Section 8482.4(c)(1), a charter that receives state funding for an after-school program must report attendance to the California Department of Education (CDE) semiannually. Such reporting must be supported by attendance records supporting student participation.

Condition

The Organization compiles monthly summaries of student attendance for submission to the CDE. However, in reviewing one of the two school's monthly summary totals for the second semi-annual reporting period, it was noted that the Organization's monthly totals as summarized did not agree with what was reported on the semi-annual report. The CDE report for the second semi-annual report shows 4,114 students served for the Organization. In contrast, the monthly summary totals for July through December 2019 shows 4,119 students served for the Organization. This resulted in the Organization underclaiming the number of students served by five.

Questioned costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, the number of students served appears understated by five students for the first semi-annual reporting period.

Context

The attendance condition was identified when the auditor selected one semi-annual reporting period dated July 2019 to December 2019. Auditor reviewed monthly summaries for the same period noting multiple exceptions as noted above.

Effect

In addition, the Organization was not compliant with *Education Code* Section 8482.4(c)(1) for the 2019-2020 fiscal year, since the number of students served as reported to the CDE is overstated when compared to supporting records.

Cause

The attendance condition appears to have resulted from inconsistent procedures utilized to track student attendance.

Recommendation

For accurate attendance reporting, the Organization should review procedures used to report the number of students served to the CDE to methods are consistent to allow for accurate reporting. Procedures for attendance should include an independent review of the sign out sheets, monthly summaries, and semi-annual reports prior to submitting them to the CDE.

Repeat Finding (Yes or No)

No

Corrective Action Plan and View of Responsible Officials

The Organization is taking steps to audit attendance from the sign-in and out sheets to the excel spreadsheets used to report the attendance. The attendance will be reviewed by another staff member in addition to the staff member preparing the data.

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 4
Charter No. 0986

Magnolia Science Academy 4
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 4
Los Angeles, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 4 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 4
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 1,317,106	$ 1,475,263
Accounts receivable	180,928	290,221
Intercompany receivable	-	46,259
Prepaid expenses	758	377
Total current assets	1,498,792	1,812,120
Non-current assets		
Property and equipment, net	42,347	30,803
Total assets	$ 1,541,139	$ 1,842,923
Liabilities		
Current liabilities		
Accounts payable	$ 402,920	$ 518,993
Refundable advance	-	1,136
Refundable advance - Paycheck Protection Program (PPP)	229,930	-
Intracompany payable	-	66
Total liabilities	632,850	520,195
Net Assets		
Without donor restrictions	908,289	1,322,728
Total liabilities and net assets	$ 1,541,139	$ 1,842,923

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 4

Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 1,419,604	$ 1,797,472
Federal revenue	103,688	107,915
Other state revenue	235,912	263,369
Local revenues	82,139	83,494
Total support and revenues	1,841,343	2,252,250
Expenses		
Program services	1,537,125	1,604,258
Management and general	718,657	795,778
Total expenses	2,255,782	2,400,036
Change in Net Assets	(414,439)	(147,786)
Net Assets, Beginning of Year	1,322,728	1,470,514
Net Assets, End of Year	$ 908,289	$ 1,322,728

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 4
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 927,183	$ 155,659	$ 1,082,842
Employee benefits	140,820	3,000	143,820
Payroll taxes	281,619	37,610	319,229
Fees for services	-	42,271	42,271
Advertising and promotions	-	6,420	6,420
Office expenses	6,692	6,810	13,502
Information technology	15,348	-	15,348
Occupancy	-	396,069	396,069
Depreciation	16,838	-	16,838
Insurance	-	10,084	10,084
Other expenses	55,145	23,087	78,232
Capital outlay	10,722	-	10,722
Special education	55,879	-	55,879
Instructional materials	11,152	-	11,152
Nutrition	1,369	-	1,369
District oversight fees	14,358	-	14,358
Management fees	-	37,647	37,647
Total functional expenses	$ 1,537,125	$ 718,657	$ 2,255,782

See Notes to Financial Statements

Magnolia Science Academy 4

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ (414,439)	$ (147,786)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	16,838	15,656
Changes in operating assets and liabilities		
Accounts receivable	109,293	(133,562)
Intercompany receivable	46,259	(45,323)
Prepaid expenses	(381)	-
Accounts payable	(116,073)	448,372
Refundable advance	(1,136)	1,136
Refundable advance - PPP	229,930	-
Intercompany payable	(66)	-
Net Cash from Operating Activities	(129,775)	138,493
Cash Flows used for Investing Activities		
Purchases of property and equipment	(28,382)	-
Net Change in Cash	(158,157)	138,493
Cash, Beginning of Year	1,475,263	1,336,770
Cash, End of Year	$ 1,317,106	$ 1,475,263
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

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 (the Organization) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 131 students. The Organization was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Organization was granted a five year extension through June 30, 2023. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $229,930 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $229,930 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 1,317,106	$ 1,475,263
Accounts receivable	180,928	290,221
Intercompany receivable	-	46,259
Total	$ 1,498,034	$ 1,811,743

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 206,678	$ 164,670
Work in progress	-	13,626
Total property and equipment	206,678	178,296
Less accumulated depreciation	(164,331)	(147,493)
Total	$ 42,347	$ 30,803

Note 4 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 24,651	$ -
Designated for state programs	21,233	-
Undesignated	862,405	1,322,729
Total net assets without donor restrictions	$ 908,289	$ 1,322,729

Note 5 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $162,693.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $21,559.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $84,411 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $28,314 in these financial statements.

Note 6 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 7 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

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Supplementary Information
June 30, 2020

Magnolia Science Academy 4

ORGANIZATION

Magnolia Science Academy 4 (the Organization) (Charter Number 0986) was granted on May 8, 2008, by Los Angeles Unified School District for a five year period ending June 30, 2023. The Organization operates one school, grades six through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Musa Avsar	Principal

Magnolia Science Academy 4
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 339EE631	Annual Report A3A56CC9
Regular ADA		
Sixth	9.92	9.92
Seventh and eighth	21.82	21.82
Ninth through twelfth	89.97	89.97
Total Regular ADA	121.71	121.71
Classroom Based ADA		
Sixth	9.92	9.92
Seventh and eighth	21.82	21.82
Ninth through twelfth	89.97	89.97
Total Classroom Based ADA	121.71	121.71

See Note to Supplementary Information

Magnolia Science Academy 4
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days: Traditional Calendar	Number of Days: Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,375	181	N/A	Complied
Grade 7		65,375	181	N/A	Complied
Grade 8		65,375	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,375	181	N/A	Complied
Grade 10		65,375	181	N/A	Complied
Grade 11		65,375	181	N/A	Complied
Grade 12		65,375	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 4

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets		
Balance, June 30, 2020, Unaudited Actuals	$	713,471
Decrease in		
Accounts receivable		(7,633)
Accounts payable		202,451
Balance, June 30, 2020, Audited Financial Statements	$	908,289

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 4

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ______________, 2021.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 4
Los Angeles, California

Report on State Compliance
We have audited Magnolia Science Academy 4's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable and accounts payable were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 5
Charter No. 0987

Magnolia Science Academy 5
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 5
Reseda, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 5 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 5
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 1,478,382	$ 1,987,156
Accounts receivable	500,853	337,071
Intercompany receivable	988,341	1,026
Prepaid expenses	1,667	-
Total current assets	2,969,243	2,325,253
Non-current assets		
Property and equipment, net	59,649	64,363
Total assets	$ 3,028,892	$ 2,389,616
Liabilities		
Current liabilities		
Accounts payable	$ 571,523	$ 496,724
Refundable advance	-	5,090
Refundable advance - Paycheck Protection Program (PPP)	349,985	-
Intracompany payable	-	105,795
Total liabilities	921,508	607,609
Net Assets		
Without donor restrictions	2,107,384	1,782,007
Total liabilities and net assets	$ 3,028,892	$ 2,389,616

See Notes to Financial Statements

Magnolia Science Academy 5
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 3,043,774	$ 2,519,073
Federal revenue	148,113	136,309
Other state revenue	430,857	239,173
Local revenues	70,980	13,837
Total support and revenues	3,693,724	2,908,392
Expenses		
Program services	2,205,021	2,130,052
Management and general	1,163,326	891,665
Total expenses	3,368,347	3,021,717
Change in Net Assets	325,377	(113,325)
Net Assets, Beginning of Year	1,782,007	1,895,332
Net Assets, End of Year	$ 2,107,384	$ 1,782,007

See Notes to Financial Statements

Magnolia Science Academy 5
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 1,329,927	$ 284,476	$ 1,614,403
Employee benefits	209,419	6,000	215,419
Payroll taxes	355,267	76,544	431,811
Fees for services	-	54,522	54,522
Advertising and promotions	-	197	197
Office expenses	31,729	4,048	35,777
Information technology	7,286	-	7,286
Occupancy	-	257,668	257,668
Travel	-	963	963
Depreciation	24,734	-	24,734
Insurance	-	9,595	9,595
Other expenses	41,615	39,050	80,665
Capital outlay	9,190	-	9,190
Special education	27,583	-	27,583
Instructional materials	62,647	-	62,647
Nutrition	75,229	-	75,229
District oversight fees	30,395	-	30,395
Management fees	-	430,263	430,263
Total functional expenses	$ 2,205,021	$ 1,163,326	$ 3,368,347

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 5

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 325,377	$ (113,325)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	24,734	17,579
Changes in operating assets and liabilities		
Accounts receivable	(163,782)	(179,448)
Intercompany receivable	(987,315)	21,566
Prepaid expenses	(1,667)	11,698
Accounts payable	74,800	394,414
Refundable advance	(5,090)	5,090
Refundable advance - PPP	349,985	-
Intercompany payable	(105,795)	97,627
Net Cash from (used for) Operating Activities	(488,753)	255,201
Cash Flows used for Investing Activities		
Purchases of property and equipment	(20,021)	-
Net Change in Cash	(508,774)	255,201
Cash, Beginning of Year	1,987,156	1,731,955
Cash, End of Year	$ 1,478,382	$ 1,987,156
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

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 (the Organization), formerly located in Hollywood, now located in Reseda, California provides sixth through ninth grade education to approximately 281 students. The Organization 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, the Organization was approved for a five year period ending June 30, 2023 under Los Angeles County Office of Education. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $349,985 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $349,985 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 1,478,382	$ 1,987,156
Accounts receivable	500,853	337,071
Intercompany receivable	988,341	1,026
Total	$ 2,967,576	$ 2,325,253

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 225,539	$ 191,682
Work in progress	-	13,836
Total property and equipment	225,539	205,518
Less accumulated depreciation	(165,890)	(141,155)
Total	$ 59,649	$ 64,363

Note 4 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 10,646	$ -
Designated for state programs	4,530	284,969
Undesignated	2,092,208	1,497,038
Total net assets without donor restrictions	$ 2,107,384	$ 1,782,007

Note 5 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $207,701.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $54,073.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $106,299 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $35,656 in these financial statements.

Note 6 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 7 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy 5

ORGANIZATION

Magnolia Science Academy 5 (the Organization) (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. The Organization has been approved for grades six through twelve and operated one school, grades six through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Brad Plonka	Principal

Magnolia Science Academy 5
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 3EB819B2	Annual Report A1FDDD1B
Regular ADA		
Sixth	49.49	49.49
Seventh and eighth	115.96	115.96
Ninth through twelfth	101.30	101.30
Total Regular ADA	266.75	266.75
Classroom Based ADA		
Sixth	49.49	49.49
Seventh and eighth	115.96	115.96
Ninth through twelfth	101.30	101.30
Total Classroom Based ADA	266.75	266.75

See Note to Supplementary Information

Magnolia Science Academy 5

Schedule of Instructional Time

Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,211	181	N/A	Complied
Grade 7		65,211	181	N/A	Complied
Grade 8		65,211	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,211	181	N/A	Complied
Grade 10		65,211	181	N/A	Complied
Grade 11		65,211	181	N/A	Complied
Grade 12		65,211	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 5

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 2,067,563
Decrease in	
Accounts payable	47,213
Increase in	
Accounts receivable	(7,392)
Balance, June 30, 2020, Audited Financial Statements	$ 2,107,384

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 5

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 5
Reseda, California

Report on State Compliance
We have audited Magnolia Science Academy 5's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	No, see below

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

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable and accounts payable were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 6
Charter No. 0988

Magnolia Science Academy 6
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June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 6
Los Angeles, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 6 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 6

Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 2,024,300	$ 1,719,960
Accounts receivable	199,173	256,078
Intercompany receivable	-	8,002
Prepaid expenses	455	9,714
Total current assets	2,223,928	1,993,754
Non-current assets		
Property and equipment, net	43,937	10,094
Total assets	$ 2,267,865	$ 2,003,848
Liabilities		
Current liabilities		
Accounts payable	$ 223,027	$ 175,225
Refundable advance	-	12,223
Refundable advance - Paycheck Protection Program (PPP)	193,294	-
Intracompany payable	-	2,110
Total liabilities	416,321	189,558
Net Assets		
Without donor restrictions	1,851,544	1,814,290
Total liabilities and net assets	$ 2,267,865	$ 2,003,848

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 6
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Local Control Funding Formula	$ 1,338,848	$ 1,496,543
Federal revenue	107,108	98,528
Other state revenue	274,441	321,358
Local revenues	51,055	5,441
Total support and revenues	1,771,452	1,921,870
Expenses		
Program services	1,192,690	1,242,398
Management and general	541,508	469,080
Total expenses	1,734,198	1,711,478
Change in Net Assets	37,254	210,392
Net Assets, Beginning of Year	1,814,290	1,603,898
Net Assets, End of Year	$ 1,851,544	$ 1,814,290

Magnolia Science Academy 6
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 723,715	$ 150,107	$ 873,822
Employee benefits	116,160	-	116,160
Payroll taxes	194,640	36,470	231,110
Fees for services	-	133,551	133,551
Advertising and promotions	-	15,303	15,303
Office expenses	13,158	9,155	22,313
Information technology	18,905	-	18,905
Occupancy	-	133,094	133,094
Travel	-	719	719
Depreciation	3,343	-	3,343
Insurance	-	7,306	7,306
Other expenses	10,937	18,156	29,093
Capital outlay	8,282	-	8,282
Special education	47,628	-	47,628
Instructional materials	39,924	-	39,924
Nutrition	2,600	-	2,600
District oversight fees	13,398	-	13,398
Management fees	-	37,647	37,647
Total functional expenses	$ 1,192,690	$ 541,508	$ 1,734,198

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 6
Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 37,254	$ 210,392
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	3,343	17,896
Changes in operating assets and liabilities		
Accounts receivable	56,905	(93,594)
Intercompany receivable	8,002	(5,502)
Prepaid expenses	9,259	5,170
Accounts payable	47,802	128,792
Refundable advance	(12,223)	12,223
Refundable advance - PPP	193,294	-
Intercompany payable	(2,110)	2,052
Net Cash from Operating Activities	341,526	277,429
Cash Flows used for Investing Activities		
Purchases of property and equipment	(37,186)	-
Net Change in Cash	304,340	277,429
Cash, Beginning of Year	1,719,960	1,442,531
Cash, End of Year	$ 2,024,300	$ 1,719,960
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

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 (the Organization) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 134 students. The Organization was created under the approval of the Los Angeles Unified School District (ending June 30, 2024) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $193,294 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $193,294 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 2,024,300	$ 1,719,960
Accounts receivable	199,173	256,078
Intercompany receivables	-	8,002
Total	$ 2,223,473	$ 1,984,040

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 196,157	$ 148,877
Work in progress	-	10,094
Total property and equipment	196,157	158,971
Less accumulated depreciation	(152,220)	(148,877)
Total	$ 43,937	$ 10,094

Note 4 - Operating Lease

MSA 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms, California in which the MSA 6 will occupy for its campus location. The term of this agreement expires on July 31, 2021. Lease expense for the fiscal year ending June 30, 2020 was $104,500, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 127,750
2022	10,750
Total	$ 138,500

Note 5 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 5,256	$ -
Designated for state programs	22,040	217,955
Undesignated	1,824,248	1,596,334
Total net assets without donor restrictions	$ 1,851,544	$ 1,814,289

Note 6 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $108,462.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $25,944.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $63,954 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $21,452 in these financial statements.

Note 7 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 8 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy 6

ORGANIZATION

Magnolia Science Academy 6 (the Organization) (Charter No. 0988) was granted on May 8, 2008, by Los Angeles Unified School District for a five year period ending June 30, 2024. The Organization operates one school, grades six through eight.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
John Terzi	Principal

See Note to Supplementary Information

Magnolia Science Academy 6
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report E8F2AD43	Annual Report 6A6BD1AF
Regular ADA		
Sixth	32.37	32.37
Seventh and eighth	94.95	94.95
Total Regular ADA	127.32	127.32
Classroom Based ADA		
Sixth	32.37	32.37
Seventh and eighth	94.95	94.95
Total Classroom Based ADA	127.32	127.32

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Science Academy 6
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		60,724	181	N/A	Complied
Grade 7		60,724	181	N/A	Complied
Grade 8		60,724	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 6

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 1,821,121
Decrease in	
Accounts payable	1,342
Refundable advance	7,706
Increase in	
Accounts receivable	21,375
Balance, June 30, 2020, Audited Financial Statements	$ 1,851,544

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 6

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 6
Los Angeles, California

Report on State Compliance
We have audited Magnolia Science Academy 6's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	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	Procedures Performed
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with Government Auditing Standards. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Charter School.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable, refundable advance, and accounts payable were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

FINAL DRAFT 3.5.2021

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy 7
Charter No. 0989

Magnolia Science Academy 7
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy 7
Northridge, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy 7 (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy 7
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 1,632,981	$ 1,314,944
Accounts receivable	496,732	409,828
Prepaid expenses	1,742	23,786
Total current assets	2,131,455	1,748,558
Non-current assets		
Property and equipment, net	504,930	168,098
Total assets	$ 2,636,385	$ 1,916,656
Liabilities		
Current liabilities		
Accounts payable	$ 399,239	$ 359,411
Refundable advance	-	1,859
Refundable advance - Paycheck Protection Program (PPP)	358,254	-
Intracompany payable	-	12,746
Total liabilities	757,493	374,016
Net Assets		
Without donor restrictions	1,878,892	1,542,640
Total liabilities and net assets	$ 2,636,385	$ 1,916,656

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 7
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 2,953,282	$ 2,764,875
Federal revenue	171,913	314,706
Other state revenue	639,729	796,108
Local revenues	119,708	56,165
Total support and revenues	3,884,632	3,931,854
Expenses		
Program services	2,124,147	2,246,312
Management and general	1,424,233	1,641,098
Total expenses	3,548,380	3,887,410
Change in Net Assets	336,252	44,444
Net Assets, Beginning of Year	1,542,640	1,498,196
Net Assets, End of Year	$ 1,878,892	$ 1,542,640

See Notes to Financial Statements

Magnolia Science Academy 7
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 1,208,041	$ 417,435	$ 1,625,476
Employee benefits	177,957	-	177,957
Payroll taxes	319,442	102,201	421,643
Fees for services	-	62,714	62,714
Advertising and promotions	-	4,187	4,187
Office expenses	7,919	25,180	33,099
Information technology	17,904	-	17,904
Occupancy	-	339,037	339,037
Travel	-	1,460	1,460
Depreciation	3,917	-	3,917
Insurance	-	23,400	23,400
Other expenses	192,495	18,356	210,851
Capital outlay	18,882	-	18,882
Special education	112,717	-	112,717
Instructional materials	31,754	-	31,754
Nutrition	3,442	-	3,442
District oversight fees	29,677	-	29,677
Management fees	-	430,263	430,263
Total functional expenses	$ 2,124,147	$ 1,424,233	$ 3,548,380

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Science Academy 7

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 336,252	$ 44,444
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	3,917	-
Changes in operating assets and liabilities		
Accounts receivable	(86,904)	(91,587)
Prepaid expenses	22,044	(1,449)
Security deposits	-	7,227
Accounts payable	39,829	82,304
Refundable advance	(1,859)	1,859
Refundable advance - PPP	358,254	-
Intercompany payable	(12,746)	2,167
Net Cash from Operating Activities	658,787	44,965
Cash Flows used for Investing Activities		
Purchases of property and equipment	(340,750)	-
Net Change in Cash	318,037	44,965
Cash, Beginning of Year	1,314,944	1,269,979
Cash, End of Year	$ 1,632,981	$ 1,314,944
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

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 (the Organization) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 291 students. The Organization 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 2019 for a period of five years ending in 2024. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

FINAL DRAFT 3.5.2021

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $358,254 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $358,254 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash	$ 1,632,981	$ 1,314,944
Accounts receivable	496,732	409,828
Total	$ 2,129,713	$ 1,724,772

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020 MSA 7	2019 Consolidated
Building	$ 492,294	$ 27,904
Computer and equipment	139,454	94,996
Work in progress	-	168,098
Total property and equipment	631,748	290,998
Less accumulated depreciation	(126,818)	(122,900)
Total	$ 504,930	$ 168,098

Note 4 - Operating Lease

The Organization entered into a lease agreement with First Lutheran Church of Northridge in which the Organization will occupy for its campus location. The term of this agreement expires on June 30, 2022. Lease expense for the fiscal year ending June 30, 2020 was $265,656, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 273,624
2022	281,832
Total	$ 555,456

Note 5 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 41,766	$ -
Designated for state programs	80,388	721,439
Undesignated	5,179,961	4,140,719
Total net assets without donor restrictions	$ 5,302,115	$ 4,862,158

Note 6 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $192,450.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $72,046.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $100,526 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $33,720 in these financial statements.

Note 7 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 8 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy 7

ORGANIZATION

Magnolia Science Academy 7 (the Organization) (Charter No. 0989) was granted on February 26, 2008, by Los Angeles Unified School District for a five year period ending June 30, 2024. The Organization operates one school, grades kindergarten through five.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Meagan Wittek	Principal

See Note to Supplementary Information

Magnolia Science Academy 7
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report CF34B7A2	Annual Report 26A46A86
Regular ADA		
Transitional kindergarten through third	220.97	220.97
Fourth through Fifth	55.87	55.87
Total Regular ADA	276.84	276.84
Classroom Based ADA		
Transitional kindergarten through third	220.97	220.97
Fourth through Fifth	55.87	55.87
Total Classroom Based ADA	276.84	276.84

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Science Academy 7
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	57,040	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		57,040	181	N/A	Complied
Grade 2		57,040	181	N/A	Complied
Grade 3		57,040	181	N/A	Complied
Grades 4 - 5	54,000				
Grade 4		57,040	181	N/A	Complied
Grade 5		57,040	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy 7

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 1,788,847
Decrease in	
Accounts payable	40,945
Increase in	
Accounts receivable	49,100
Balance, June 30, 2020, Audited Financial Statements	$ 1,878,892

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy 7

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy 7
Northridge, California

Report on State Compliance
We have audited Magnolia Science Academy 7's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	Procedures Performed
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

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

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

Unmodified Opinion

In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

The following finding represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable and accounts payable were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None report.

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy Bell
Charter No. 1236

Magnolia Science Academy Bell
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy Bell
Bell, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy Bell (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy Bell

Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 3,014,092	$ 2,529,656
Accounts receivable	679,993	536,075
Intercompany receivable	2,248,498	1,811,055
Prepaid expenses	1,061	233
Total current assets	5,943,644	4,877,019
Non-current assets		
Property and equipment, net	77,038	100,297
Total assets	$ 6,020,682	$ 4,977,316
Liabilities		
Current liabilities		
Accounts payable	$ 656,545	$ 721,285
Refundable advance	-	20,038
Refundable advance - Paycheck Protection Program (PPP)	576,190	-
Intracompany payable	-	434
Total liabilities	1,232,735	741,757
Net Assets		
Without donor restrictions	4,787,947	4,235,559
Total liabilities and net assets	$ 6,020,682	$ 4,977,316

See Notes to Financial Statements

Magnolia Science Academy Bell

Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 4,878,258	$ 4,646,128
Federal revenue	345,797	334,005
Other state revenue	790,683	750,585
Local revenues	4,958	31,869
Total support and revenues	6,019,696	5,762,587
Expenses		
Program services	3,280,088	3,331,289
Management and general	2,187,220	2,279,456
Total expenses	5,467,308	5,610,745
Change in Net Assets	552,388	151,842
Net Assets, Beginning of Year	4,235,559	4,083,717
Net Assets, End of Year	$ 4,787,947	$ 4,235,559

See Notes to Financial Statements

Magnolia Science Academy Bell
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 1,961,718	$ 616,274	$ 2,577,992
Employee benefits	283,230	8,029	291,259
Payroll taxes	518,223	148,743	666,966
Fees for services	-	12,942	12,942
Advertising and promotions	-	4,974	4,974
Office expenses	43,288	28,168	71,456
Information technology	10,208	-	10,208
Occupancy	-	420,273	420,273
Travel	-	30	30
Conferences and meeting	-	1,400	1,400
Depreciation	63,360	-	63,360
Insurance	-	26,507	26,507
Other expenses	24,647	59,355	84,002
Capital outlay	42,242	-	42,242
Special education	115,462	-	115,462
Instructional materials	98,618	-	98,618
Nutrition	70,160	-	70,160
District oversight fees	48,932	-	48,932
Management fees	-	860,525	860,525
Total functional expenses	$ 3,280,088	$ 2,187,220	$ 5,467,308

See Notes to Financial Statements

Magnolia Science Academy Bell

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 552,388	$ 151,842
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	63,360	65,910
Changes in operating assets and liabilities		
Accounts receivable	(143,918)	(150,671)
Intercompany receivable	(437,443)	(88,139)
Prepaid expenses	(828)	79,747
Accounts payable	(64,741)	576,563
Refundable advance	(20,038)	20,038
Refundable advance - PPP	576,190	-
Intercompany payable	(434)	-
Net Cash from Operating Activities	524,536	655,290
Cash Flows used for Investing Activities		
Purchases of property and equipment	(40,100)	(33,068)
Net Change in Cash	484,436	622,222
Cash, Beginning of Year	2,529,656	1,907,434
Cash, End of Year	$ 3,014,092	$ 2,529,656
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

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 (The Organization) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 482 students. The Organization was created under the approval of the Los Angeles Unified School District (ending June 30, 2025) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Organization is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Educational and Research Foundation
The Organization is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as Organization's Charter School Management Organization (CMO) that manages Organization's nonacademic operation such as financial, general administration, and human resource management. Organization'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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $576,190 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon

notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $576,190 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash and cash equivalents	$ 3,014,092	$ 2,529,656
Accounts receivable	679,993	536,075
Intercompany receivable	2,248,498	1,811,055
Total	$ 5,942,583	$ 4,876,786

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 393,497	$ 340,633
Work in progress	-	12,764
Total property and equipment	393,497	353,397
Less accumulated depreciation	(316,459)	(253,100)
Total	$ 77,038	$ 100,297

Note 4 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for state programs	$ 43,995	$ -
Undesignated	4,743,952	4,235,561
Total net assets without donor restrictions	$ 4,787,947	$ 4,235,561

Note 5 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $310,622.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $105,931.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $153,134 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $51,366 in these financial statements.

Note 6 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 7 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy Bell

ORGANIZATION

Magnolia Science Academy Bell (the Organization) (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District for a five year period ending June 30, 2025. The Organization operates one school, grades six through eight.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Jason Hernandez	Principal

See Note to Supplementary Information

Magnolia Science Academy Bell
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report B819AC5D	Annual Report EC593598
Regular ADA		
Sixth	123.05	123.05
Seventh and eighth	338.42	338.42
Total Regular ADA	461.47	461.47
Classroom Based ADA		
Sixth	123.05	123.05
Seventh and eighth	338.42	338.42
Total Classroom Based ADA	461.47	461.47

See Note to Supplementary Information

Magnolia Science Academy Bell
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		62,325	181	N/A	Complied
Grade 7		62,325	181	N/A	Complied
Grade 8		62,325	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy Bell

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 4,748,827
Decrease in	
Accounts payable	46,803
Increase in	
Accounts payable	(7,683)
Balance, June 30, 2020, Audited Financial Statements	$ 4,787,947

See Note to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy Bell

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

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

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

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

Rancho Cucamonga, California
_____________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy Bell
Bell, California

Report on State Compliance

We have audited Magnolia Science Academy Bell's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	No, see below

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

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

None report.

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None report.

Magnolia Science Academy Bell
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

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

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy Santa Ana Charter No. 1686

Magnolia Science Academy Santa Ana
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy Santa Ana
Santa Ana, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy Santa Ana (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy Santa Ana

Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 2,509,874	$ 882,408
Accounts receivable	575,383	217,899
Intercompany receivable	-	618,358
Prepaid expenses	3,106	635
Total current assets	3,088,363	1,719,300
Non-current assets		
Capital contribution	75,554	75,554
Property and equipment, net	20,467,997	20,970,579
Total non-current assets	20,543,551	21,046,133
Total assets	$ 23,631,914	$ 22,765,433
Liabilities		
Current liabilities		
Accounts payable	$ 1,730,927	$ 413,791
Refundable advance	-	664
Refundable advance - Paycheck Protection Program (PPP)	751,656	-
Intracompany payable	1,405,810	2,375,621
Current portion of notes payable	99,583	94,583
Current portion of revolving loan	232,597	228,013
Total current liabilities	4,220,573	3,112,672
Long-term liabilities		
Notes payable, less current portion	3,986,805	4,086,805
Revolving loan, less current portion	7,805,977	8,037,440
Total long-term liabilities	11,792,782	12,124,245
Total liabilities	16,013,355	15,236,917
Net Assets		
Without donor restrictions	7,618,559	7,528,516
Total liabilities and net assets	$ 23,631,914	$ 22,765,433

See Notes to Financial Statements

Magnolia Science Academy Santa Ana
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 6,056,968	$ 6,767,105
Federal revenue	571,325	415,188
Other state revenue	758,855	981,462
Local revenues	107,674	74,339
Total support and revenues	7,494,822	8,238,094
Expenses		
Program services	4,940,362	5,241,445
Management and general	2,464,417	2,970,426
Total expenses	7,404,779	8,211,871
Change in Net Assets	90,043	26,223
Net Assets, Beginning of Year	7,528,516	7,502,293
Net Assets, End of Year	$ 7,618,559	$ 7,528,516

Magnolia Science Academy Santa Ana

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 2,761,595	$ 794,350	$ 3,555,945
Employee benefits	502,895	2,679	505,574
Payroll taxes	610,063	190,842	800,905
Fees for services	-	10,087	10,087
Advertising and promotions	-	2,899	2,899
Office expenses	39,511	8,504	48,015
Information technology	19,000	-	19,000
Occupancy	-	155,610	155,610
Travel	-	467	467
Interest	-	582,787	582,787
Depreciation	583,197	-	583,197
Insurance	-	33,717	33,717
Other expenses	78,659	96,949	175,608
Capital outlay	38,605	-	38,605
Special education	198,821	-	198,821
Instructional materials	45,764	-	45,764
Nutrition	2,789	-	2,789
District oversight fees	59,463	-	59,463
Management fees	-	585,526	585,526
Total functional expenses	$ 4,940,362	$ 2,464,417	$ 7,404,779

See Notes to Financial Statements

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Magnolia Science Academy Santa Ana
Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 90,043	$ 26,223
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	583,197	560,847
Changes in operating assets and liabilities		
Accounts receivable	(357,484)	799,588
Intercompany receivable	618,358	(583,928)
Prepaid expenses	(2,471)	231
Security deposits	-	19,890
Accounts payable	1,317,137	(537,678)
Deferred revenue	(664)	664
Refundable advance - PPP	751,656	-
Intercompany payable	(969,811)	193,734
Net Cash from Operating Activities	2,029,961	479,571
Cash Flows used for Investing Activities		
Purchases of property and equipment	(80,616)	-
Net Change in Cash and Cash Equivalents	1,627,466	173,550
Cash and Cash Equivalents, Beginning of Year	882,408	708,858
Cash and Cash Equivalents, End of Year	$ 2,509,874	$ 882,408
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ 582,787	$ 582,787

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Magnolia Science Academy Santa Ana
Charter school number authorized by the State: 1686
Magnolia Science Academy Santa Ana (the Organization), 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 546students. The Organization 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.

Other Related Entity

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

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 the Organization.

MPM Santa Ana, LLC
The Organization formed the MPM Santa Ana, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. MSA Santa Ana makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA Santa Ana Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. 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 Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization 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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

Capital Contribution

MSA Santa Ana invested $75,554 in a capital contribution to the MPM Santa Ana, LLC as an investment for the building improvement located at 2840 West 1st Street in the city of Santa Ana, CA 92703 for its campus location.

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $751,656 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $751,656 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization’s financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash and cash equivalents	$ 2,509,874	$ 882,408
Accounts receivable	575,383	217,899
Intercompany receivable	-	618,358
Total	$ 3,085,257	$ 1,718,665

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Building	$ 22,352,893	$ 22,157,822
Computer and equipment	350,261	269,645
Work in progress	-	195,071
Total property and equipment	22,703,154	22,622,538
Less accumulated depreciation	(2,235,157)	(1,651,959)
Total	$ 20,467,997	$ 20,970,579

Note 4 - Notes Payable

Notes payable consist of the following at June 30, 2020:

Note payable, due in monthly installments of $42,708, principal and interest at 10%, collateralized by the Magnolia Science Academy Santa Ana school facility with a carrying value of $11,389,575; maturing July 1, 2044.	$ 4,086,388

Future maturities of notes payable are as follows:

Year Ending June 30,	Principal
2021	$ 99,583
2022	104,583
2023	109,583
2024	114,583
2025	119,583
Thereafter	3,538,473
Total	$ 4,086,388

Note 5 - Revolving Loan

MSA 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 future minimum payments are as follows:

Year Ending June 30,	Principal
2021	$ 232,597
2022	237,272
2023	242,040
2024	246,906
2025	251,869
Thereafter	6,827,890
Total	$ 8,038,574

Note 6 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 206,008	$ -
Designated for state programs	157,707	272,871
Undesignated	7,254,844	7,255,639
Total net assets without donor restrictions	$ 7,618,559	$ 7,528,510

Note 7 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before December 31, 2012	On or after 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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $546,719.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $133,686.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $86,229 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $28,924 in these financial statements.

Note 8 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 9 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy Santa Ana

ORGANIZATION

Magnolia Science Academy Santa Ana (the Organization) (Charter No. 1686) was granted on August 1, 2014, by State Board of Education for the five year period ending June 30, 2024. The Organization operates one school, grades kindergarten through twelve.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Steven Keskinturk	Principal

See Note to Supplementary Information

Magnolia Science Academy Santa Ana
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 5861EFEB	Annual Report 8A5BB2AA
Regular ADA		
Transitional kindergarten through third	161.64	161.64
Fourth through sixth	140.97	140.97
Seventh and eighth	94.55	94.55
Ninth through twelfth	129.35	129.35
Total Regular ADA	526.51	526.51
Classroom Based ADA		
Transitional kindergarten through third	161.64	161.64
Fourth through sixth	140.97	140.97
Seventh and eighth	94.55	94.55
Ninth through twelfth	129.35	129.35
Total Classroom Based ADA	526.51	526.51

See Note to Supplementary Information

Magnolia Science Academy Santa Ana
Schedule of Instructional Time
Year Ended June 30, 2020

MSA Santa Ana (K-12)

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	40,685	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,860	181	N/A	Complied
Grade 2		54,860	181	N/A	Complied
Grade 3		54,940	181	N/A	Complied
Grades 4 - 8	54,000				
Grade 4		54,940	181	N/A	Complied
Grade 5		54,940	181	N/A	Complied
Grade 6		54,940	181	N/A	Complied
Grade 7		65,212	181	N/A	Complied
Grade 8		65,212	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,212	181	N/A	Complied
Grade 10		65,212	181	N/A	Complied
Grade 11		65,212	181	N/A	Complied
Grade 12		65,212	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy Santa Ana
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	$ 7,542,333
Decrease in	
Accounts payable	76,226
Balance, June 30, 2020, Audited Financial Statements	$ 7,618,559

See Note to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy Santa Ana

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

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

Compliance and Other Matters

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

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

Rancho Cucamonga, California
_____________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy Santa Ana
Santa Ana, California

Report on State Compliance
We have audited Magnolia Science Academy Santa Ana's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	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

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform California Clean Energy Jobs Act procedures because the Organization did not receive funding for this program.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified

None reported.

None report.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

2019-001 Code 30000

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.

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.

Repeat Finding (Yes or No)

No

Current status

Implemented.

Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy San Diego Charter No. 0698

Magnolia Science Academy San Diego
Table of Contents
June 30, 2020 and 2019

Independent Auditor's Report

Governing Board
Magnolia Science Academy San Diego
San Diego, California

Report on the Financial Statements
We have audited the accompanying financial statements of Magnolia Science Academy San Diego (the Organization) (a California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization'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 Organization, as of June 30, 2020, 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 other supplementary information as listed in the table of contents 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information
We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____________, 2021

Magnolia Science Academy San Diego
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 1,269,671	$ 235,322
Accounts receivable	523,286	133,499
Intercompany receivable	10	116,401
Prepaid expenses	-	291
Total current assets	1,792,967	485,513
Non-current assets		
Capital contribution	198,191	198,191
Restricted cash	-	106,607
Property and equipment, net	289,648	279,674
Total assets	$ 2,280,806	$ 1,069,985
Liabilities		
Current liabilities		
Accounts payable	$ 533,441	$ 351,751
Refundable advance - Paycheck Protection Program (PPP)	418,151	-
Intracompany payable	886,011	223,766
Total current liabilities	1,837,603	575,517
Long-term liabilities		
Revolving loan, less current portion	151,806	151,806
Total liabilities	1,989,409	727,323
Net Assets		
Without donor restrictions	291,397	342,662
Total liabilities and net assets	$ 2,280,806	$ 1,069,985

Magnolia Science Academy San Diego

Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 3,564,024	$ 2,946,503
Federal revenue	117,611	107,361
Other state revenue	576,753	544,317
Local revenues	128,973	93,070
Total support and revenues	4,387,361	3,691,251
Expenses		
Program services	2,763,459	2,704,238
Management and general	1,675,167	1,797,437
Total expenses	4,438,626	4,501,675
Change in Net Assets	(51,265)	(810,424)
Net Assets, Beginning of Year	342,662	1,153,086
Net Assets, End of Year	$ 291,397	$ 342,662

See Notes to Financial Statements

Magnolia Science Academy San Diego
Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 1,633,161	$ 402,126	$ 2,035,287
Employee benefits	276,228	19,827	296,055
Payroll taxes	451,638	72,998	524,636
Fees for services	11,726	67,382	79,108
Advertising and promotions	-	11,711	11,711
Office expenses	11,298	53,143	64,441
Information technology	14,303	-	14,303
Occupancy	-	801,585	801,585
Travel	-	4,214	4,214
Depreciation	14,699	-	14,699
Insurance	-	25,044	25,044
Other expenses	114,177	22,136	136,313
Capital outlay	23,620	-	23,620
Special education	165,744	-	165,744
Instructional materials	10,132	-	10,132
Nutrition	4,713	-	4,713
District oversight fees	32,020	-	32,020
Management fees	-	195,001	195,001
Total functional expenses	$ 2,763,459	$ 1,675,167	$ 4,438,626

See Notes to Financial Statements

Magnolia Science Academy San Diego
Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ (51,265)	$ (810,424)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	14,699	15,216
Changes in operating assets and liabilities		
Accounts receivable	(389,787)	138,446
Intercompany receivable	116,391	(116,401)
Prepaid expenses	291	128,228
Accounts payable	181,691	214,345
Refundable advance - PPP	418,151	-
Intercompany payable	662,245	8,128
Net Cash from Operating Activities	952,416	(422,462)
Cash Flows used for Investing Activities		
Purchases of property and equipment	(24,674)	-
Net Change in Cash, Cash Equivalents, and Restricted Cash	927,742	(422,462)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	341,929	764,391
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 1,269,671	$ 341,929
Cash and cash equivalents	1,269,671	235,322
Cash restricted to 2014 and 2017 Bond Reserve Fund	-	106,607
Total Cash, Cash Equivalents, and Restricted Cash	$ 1,269,671	$ 341,929
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

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 (MSA San Diego), formerly Momentum Middle Charter School, 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 Organization 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 Organization 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 Organization is economically dependent on Federal and State funding.

Other Related Entity

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

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 the Organization.

MPM San Diego, LLC
The Organization formed the MPM San Diego, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The MSA San Diego makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA San Diego Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. 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 Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state funds.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all cash including cash in County Investment Pool 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. Cash and highly liquid financial instruments restricted for bond reserve funds or other long-term purposes are excluded from this definition.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intercompany Receivable/Payable

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

Capital Contributions

MSA San Diego invested $198,191 in a capital contribution to the MPM San Diego. LLC as an investment for the building improvement located at 6525 Estrella Avenue in the city of San Diego, CA 92120 for its campus location.

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 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 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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $418,151 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $418,151 in loan.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization’s financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, Revenue from Contract with Customers, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash and cash equivalents	$ 1,269,671	$ 235,322
Accounts receivable	523,286	133,499
Intercompany receivable	10	116,401
Total	$ 1,792,967	$ 485,222

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Computer and equipment	$ 692,124	$ 410,868
Work in progress	-	256,582
Total property and equipment	692,124	667,450
Less accumulated depreciation	(402,476)	(387,776)
Total	$ 289,648	$ 279,674

Note 4 - Revolving Loan

The Organization 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 2021. 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, 2020, was $151,806.

Note 5 - Operating Leases

MSA San Diego entered into a lease agreement with MPM San Diego, LLC in which the MSA San Diego will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $476,172, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 476,397
2022	478,130
2023	481,275
2024	482,139
2025	486,216
Thereafter	9,794,929
Total	$ 12,199,086

MSA 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 expense for the fiscal year ending June 30, 2020 was $240,000, which is included in occupancy in the statement of functional expenses.

Note 6 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 9,573	$ -
Designated for state programs	21,336	237,447
Undesignated	260,488	105,213
Total net assets without donor restrictions	$ 291,397	$ 342,660

Note 7 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $279,549.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $50,756.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $13,7262 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $46,042 in these financial statements.

Note 8 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 9 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Science Academy San Diego

ORGANIZATION

Magnolia Science Academy San Diego (the Organization) (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District for a five year period ending June 30, 2024. The Organization operates one school, grades six through eight.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)
Gokhan Serce	Principal

See Note to Supplementary Information

Magnolia Science Academy San Diego
Schedule of Average Daily Attendance
Year Ended June 30, 2020

	Second Period Report 295A862B	Annual Report 02673638
Regular ADA		
Sixth	133.73	133.73
Seventh and eighth	286.13	286.13
Total Regular ADA	419.86	419.86
Classroom Based ADA		
Sixth	133.73	133.73
Seventh and eighth	286.13	286.13
Total Classroom Based ADA	419.86	419.86

See Note to Supplementary Information

Magnolia Science Academy San Diego
Schedule of Instructional Time
Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		60,710	181	N/A	Complied
Grade 7		60,710	181	N/A	Complied
Grade 8		60,710	181	N/A	Complied

See Note to Supplementary Information

Magnolia Science Academy San Diego
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets		
Balance, June 30, 2020, Unaudited Actuals	$	300,163
Increase in		
Accounts payable		(8,766)
Balance, June 30, 2020, Audited Financial Statements	$	291,397

See Note to Supplementary Information

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. 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 the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 54 days due to the pandemic. As a result, the Organization received credit for these 54 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy San Diego

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
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 (the Organization) which comprise the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2021.

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

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

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

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

Rancho Cucamonga, California
_____________, 2021

Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy San Diego
San Diego, California

Report on State Compliance
We have audited Magnolia Science Academy San Diego's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility
Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility
Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. 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 audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the Organization'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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

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Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Organization'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	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

FINAL DRAFT 3.5.2021

	Procedures Performed
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional 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.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Basis for Qualified Opinion on After School Education and Safety Program

As described in the accompanying Schedule of State Compliance Findings and Questioned Costs, the Organization did not comply with requirements regarding *After School Education and Safety Program* as item 2020-001. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements referred to above.

Qualified Opinion on After School Education and Safety Program
In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Template Binders complied, in all material respects, with the compliance requirements referred to above for the year ended June 30, 2020.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of State Compliance Findings and Questioned Costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Unmodified Opinion on Each of the Other Programs
In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020, except as described in the accompanying *Schedule of State Compliance Findings and Questioned Costs.*

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
______________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified *

Unmodified for all programs except for the following program which was qualified:

Name of Program
* After School Education and Safety Program

None report.

The following finding represent an instance of noncompliance relating to compliance with state laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2020-001 Code 40000

Criteria or Specific Requirements

According to the *California Education Code* Section 8482.4(c)(1), a charter that receives state funding for an after-school program must report attendance to the California Department of Education (CDE) semiannually. Such reporting must be supported by attendance records supporting student participation.

Condition

The Organization compiles monthly summaries of student attendance for submission to the CDE. However, in reviewing one of the two school's monthly summary totals for the second semi-annual reporting period, it was noted that the Organization's monthly totals as summarized did not agree with what was reported on the semi-annual report. The CDE report for the second semi-annual report shows 3,489 students served for the Organization. In contrast, the monthly summary totals for July through December 2019 shows 3,477 students served for the Organization. This resulted in the Organization overclaiming the number of students served by 12.

Questioned costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, the number of students served appears overstated by 12 students for the first semi-annual reporting period.

Context

The attendance condition was identified when the auditor selected one semi-annual reporting period dated July 2019 to December 2019. Auditor reviewed monthly summaries for the same period noting multiple exceptions as noted above.

Effect

In addition, the Organization was not compliant with *Education Code* Section 8482.4(c)(1) for the 2019-2020 fiscal year, since the number of students served as reported to the CDE is overstated when compared to supporting records.

Cause

The attendance condition appears to have resulted from inconsistent procedures utilized to track student attendance.

Recommendation

For accurate attendance reporting, the Organization should review procedures used to report the number of students served to the CDE to methods are consistent to allow for accurate reporting. Procedures for attendance should include an independent review of the sign out sheets, monthly summaries, and semi-annual reports prior to submitting them to the CDE.

Repeat Finding (Yes or No)

No

Corrective Action Plan and View of Responsible Officials

The Organization is taking steps to audit attendance from the sign-in and out sheets to the excel spreadsheets used to report the attendance. The attendance will be reviewed by another staff member in addition to the staff member preparing the data.

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

Consolidated Financial Statements
June 30, 2020 and 2019

Magnolia Educational & Research Foundation

Independent Auditor's Report

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Magnolia Educational & Research Foundation and Subsidiaries (the Organization), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2020, 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 consolidated 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* (Uniform Guidance) and 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 consolidating schedule of expenditures of federal awards, consolidating statement of financial position, consolidating statement of activities, and the other supplementary information as listed in the table of contents 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 consolidating schedule of expenditures of federal awards, consolidating statement of financial position, and the consolidating statement of activities are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2021 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.

Rancho Cucamonga, California
________________, 2021

Magnolia Educational & Research Foundation
Consolidated Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 24,880,403	$ 21,113,077
Accounts receivable	6,470,352	4,871,200
Prepaid expenses	119,785	53,464
Total current assets	31,470,540	26,037,741
Non-current assets		
Restricted cash	2,282,168	2,299,814
Property and equipment, net	52,645,675	50,490,691
Total non-current assets	54,927,843	52,790,505
Total assets	$ 86,398,383	$ 78,828,246
Liabilities		
Current liabilities		
Accounts payable	$ 8,188,964	$ 6,051,459
Refundable advance	446,653	2,367,850
Refundable advance - Paycheck Protection Program (PPP)	5,461,600	-
Current portion of notes payable	99,583	94,583
Current portion of bonds payable	655,000	620,000
Current portion of revolving loan	232,597	228,013
Total current liabilities	15,084,397	9,361,905
Long-term liabilities		
Notes payable, less current portion	3,986,805	4,086,805
Bonds payable, less current portion and net of unamortized bond issuance costs	28,447,667	29,076,587
Revolving loan, less current portion	7,957,783	8,189,246
Total long-term liabilities	40,392,255	41,352,638
Total liabilities	55,476,652	50,714,543
Net Assets		
Without donor restrictions	30,921,731	28,113,703
Total liabilities and net assets	$ 86,398,383	$ 78,828,246

See Notes to Financial Statements

Magnolia Educational & Research Foundation

Consolidated Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 40,431,155	$ 39,134,304
Federal revenue	2,847,974	2,728,824
Other state revenue	6,801,756	7,421,950
Local revenues	1,290,510	722,973
Total support and revenues	51,371,395	50,008,051
Expenses		
Program services	32,229,176	32,968,880
Management and general	16,334,191	15,836,430
Total expenses	48,563,367	48,805,310
Change in Net Assets	2,808,028	1,202,741
Net Assets, Beginning of Year	28,113,703	26,910,962
Net Assets, End of Year	$ 30,921,731	$ 28,113,703

See Notes to Financial Statements

Magnolia Educational & Research Foundation

Consolidated Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 18,933,842	$ 6,866,240	$ 25,800,082
Employee benefits	3,131,992	50,219	3,182,211
Payroll taxes	5,351,851	1,394,918	6,746,769
Fees for services	11,726	2,041,012	2,052,738
Advertising and promotions	-	92,063	92,063
Office expenses	270,467	214,724	485,191
Information technology	236,381	-	236,381
Occupancy	-	2,532,632	2,532,632
Travel	-	57,652	57,652
Conferences and meeting	-	3,764	3,764
Interest	-	2,223,875	2,223,875
Depreciation and amortization	1,097,993	-	1,097,993
Insurance	-	267,527	267,527
Other expenses	722,250	589,565	1,311,815
Capital outlay	302,768	-	302,768
Special education	963,073	-	963,073
Instructional materials	586,586	-	586,586
Nutrition	221,572	-	221,572
District oversight fees	398,675	-	398,675
Total functional expenses	$ 32,229,176	$ 16,334,191	$ 48,563,367

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation
Consolidated Statement of Cash Flows
Year Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 2,808,028	$ 1,202,741
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	1,071,913	1,099,216
Interest expense attributable to the amortization of bond issuance costs	26,080	26,080
Changes in operating assets and liabilities		
Accounts receivable	(1,599,152)	(89,580)
Prepaid expenses	(66,321)	973,944
Security deposits	-	43,117
Accounts payable	2,137,507	2,819,074
Refundable advance	(1,921,197)	77,191
Refundable advance - PPP	5,461,600	-
Net Cash from Operating Activities	7,918,458	6,151,783
Cash Flows used for Investing Activities		
Purchases of property and equipment	(3,236,959)	(9,681,137)
Cash Flows used for Financing Activities		
Principal payments on notes	(93,866)	(83,612)
Principal payments on bonds	(620,000)	(12,214)
Principal payments on revolving loan	(228,013)	(222,409)
Net Cash used for Financing Activities	(941,879)	(318,235)
Net Change in Cash, Cash Equivalents, and Restricted Cash	3,749,681	(3,847,589)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	23,412,890	27,260,480
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 27,162,571	$ 23,412,891
Cash and cash equivalents	24,880,403	21,113,077
Cash restricted to 2014 and 2017 Bond Reserve Fund	2,282,168	2,299,814
Total Cash, Cash Equivalents, and Restricted Cash	$ 27,162,571	$ 23,412,891
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ 2,223,875	$ 2,223,875

See Notes to Financial Statements

FINAL DRAFT 3.5.2021

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Magnolia Educational & Research Foundation (the Organization) is a California not-for-profit organization. During the fiscal year ended June 30, 2020, The organization operated ten charter schools currently serves approximately 3,890 students in grades kindergarten through twelve throughout California. The Organization 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 Organization offer the following programs, which are mostly free of charge:

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

The Organization 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.

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 education for grades six through twelve. 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 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 435 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 June 30, 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 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 497students. 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 June 30, 2022. MSA 3 is economically dependent on Federal and State funding.

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 131 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, 2023. MSA 4 is economically dependent on Federal and State funding.

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 281 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 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 134 students. The School was created under the approval of the Los Angeles Unified School District (ending June 30, 2024) 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 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 2019 for a period of five years ending in 2024. MSA 7 is economically dependent on Federal and State funding.

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 482 students. MSA Bell was created under the approval of the Los Angeles Unified School District (ending June 30, 2025) 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 Science Academy Santa Ana
Charter school number authorized by the State: 1686
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 546 students. MSA Santa Ana was created under the approval the California State Board of Education (ending June 30, 2024), and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Magnolia Science Academy San Diego
Charter school number authorized by the State: 0698
Magnolia Science Academy San Diego (MSA San Diego), formerly Momentum Middle Charter School, 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 (ending June 30, 2024), and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Other Related Entity

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 the Organization.

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

MPM Santa Ana, LLC
The Organization formed the MPM Santa Ana, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. MSA Santa Ana makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA Santa Ana Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. MPM Inc. is the sole member of the LLC.

MPM San Diego, LLC
The Organization formed the MPM San Diego, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The MSA San Diego makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA San Diego Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. MPM Inc. is the sole member of the LLC.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and the Subsidiaries, of which include MSA, MSA 2, MSA 3, MSA 4, MSA 5, MSA 6, MSA 7, MSA Bell, MSA Santa Ana, MSA San Diego, MPM, Inc., MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM San Diego, LLC. All significant intracompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization.

Comparative Financial Information

The accompanying consolidated 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 Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying consolidated financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state programs.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all cash including cash in County Investment Pool 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. Cash and highly liquid financial instruments restricted to bond reserve funds or other long-term purposes are excluded from this definition.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intracompany Receivable/Payable

Intracompany receivable/payable results from a net cumulative difference between resources provided by the home office account to each charter school and reimbursement for those resources from each charter school to the home office account. Operating transfers include certain costs of shared liabilities and shared assets between the Organization.

Capital Contribution

MSA invested $161,923 in a capital contribution to the MPM Sherman Way, LLC as an investment for the building improvement located at 18238 Sherman Way in the city of Reseda, CA 91335 for its campus location.

MSA Santa Ana invested $75,554 in a capital contribution to the MPM Santa Ana, LLC as an investment for the building improvement located at 2840 West 1st Street in the city of Santa Ana, CA 92703 for its campus location.

MSA San Diego invested $198,191 in a capital contribution to the MPM San Diego. LLC as an investment for the building improvement located at 6525 Estrella Avenue in the city of San Diego, CA 92120 for its campus location.

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 Organization 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying consolidated financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $5,461,600 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $5,461,600 in loan.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable approximation of the effective interest method. Debt issuance costs are included within bonds payable in the statement of financial position. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement 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 based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, fees for services, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization 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.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

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 management 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 is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. Although the full impact of this update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, *Revenue from Contract with Customers*, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - 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:

	2020	2019
Cash and cash equivalents	$ 24,880,403	$ 21,113,077
Accounts receivable	6,470,352	4,871,200
Total	$ 31,350,755	$ 25,984,277

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	$ 2,566,854	$ 2,566,854
Leasehold improvements	2,360,135	-
Building	47,628,894	28,398,928
Computer and equipment	3,606,511	2,808,123
Work in progress	2,426,372	21,587,963
Total property and equipment	58,588,766	55,361,868
Less accumulated depreciation	(5,943,091)	(4,871,177)
Total	$ 52,645,675	$ 50,490,691

Note 4 - Notes Payable

Notes payable consist of the following at June 30, 2020:

Note payable, due in monthly installments of $42,708, principal and interest at 10%, collateralized by the Magnolia Science Academy Santa Ana school facility with a carrying value of $11,389,575; maturing July 1, 2044.	$ 4,086,388

Future maturities of notes payable are as follows:

Year Ending June 30,	Principal
2021	$ 99,583
2022	104,583
2023	109,583
2024	114,583
2025	119,583
Thereafter	3,538,473
Total	$ 4,086,388

Note 5 - Bonds Payable

Charter School Facilities Revenue Bonds, Series 2014A and 2014B On June 26, 2014, the Organization issued $6,020,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate ranging from 5.25 to 7.00 percent. Unamortized bonds issuance costs are amortized an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.	5,595,000
Charter School Facilities Revenue Bonds, Series 2017A On September 6, 2017, the Organization issued $25,000,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate of 5.25 percent. Unamortized bonds issuance costs are amortized based on an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.	24,480,000
Subtotal outstanding bonds	30,075,000
Bond issuance costs on Charter School Facilities Revenue Bonds, Series 2014A and 2014B	(320,341)
Bond issuance costs on Charter School Facilities Revenue Bonds, Series 2017A	(651,992)
Subtotal debt issuance costs on bonds	(972,333)
Total	$ 29,102,667

Future maturities of bonds payable are as follows:

Year Ending June 30,	Principal
2021	$ 655,000
2022	685,000
2023	720,000
2024	760,000
2025	800,000
Thereafter	26,455,000
Less unamortized debt issuance costs	(972,333)
Total	$ 29,102,667

Note 6 - Revolving Loan

MSA 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 future minimum payments are as follows:

Year Ending June 30,	Principal
2021	$ 232,597
2022	237,272
2023	242,040
2024	246,906
2025	251,869
Thereafter	6,827,890
Total	$ 8,038,574

MSA 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 2021. 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, 2020, was $151,806.

Note 7 - Operating Leases

The Organization entered into a lease agreement with Kajima Development Corporation in which the Organization will occupy for its home office location. The term of this agreement expires on April 30, 2023. Lease expense for the fiscal year ending June 30, 2020 was $171,600, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 177,600
2022	184,600
2023	158,000
Total	$ 520,200

MSA entered into a lease agreement with MPM Sherman Way, LLC in which the MSA will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $1,295,589, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
2025	1,312,995
Thereafter	25,942,689
Total	$ 32,458,849

MSA 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms, California in which the MSA 6 will occupy for its campus location. The term of this agreement expires on July 31, 2021. Lease expense for the fiscal year ending June 30, 2020 was $104,500, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 127,750
2022	10,750
Total	$ 138,500

MSA 7 entered into a lease agreement with First Lutheran Church of Northridge in which the MSA 7 will occupy for its campus location. The term of this agreement expires on June 30, 2022. Lease expense for the fiscal year ending June 30, 2020 was $265,656, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 273,624
2022	281,832
Total	$ 555,456

MSA San Diego entered into a lease agreement with MPM San Diego, LLC in which the MSA San Diego will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $476,172, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 476,397
2022	478,130
2023	481,275
2024	482,139
2025	486,216
Thereafter	9,794,929
Total	$ 12,199,086

MSA 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 expense for the fiscal year ending June 30, 2020 was $240,000, which is included in occupancy in the statement of functional expenses.

Note 8 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 457,937	$ -
Designated for state programs	479,276	2,391,084
Undesignated	29,984,518	25,722,619
Total net assets without donor restrictions	$ 30,921,731	$ 28,113,703

Note 9 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization 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 Organization 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, 2018, 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% 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 Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $3,348,294.

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, 2018, 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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

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 Organization 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, 2020, are presented above and the total Organization's contributions were $880,768.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,513,747 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $507,762 in these financial statements.

Note 10 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 11 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ______________, 2021, 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.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation
Consolidating Schedule of Expenditures of Federal Awards
June 30, 2020

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 California Department of Education (CDE)			
Special Education Cluster			
Basic Local Assistance Entitlement	84.027	13379	$ 568,937
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,344,688
Title II, Part A, Supporting Effective Instruction	84.367	14341	196,368
Title III, English Learner Student Program	84.365	14346	83,484
Title IV, Part A, Student Support and Academic Enrichment	84.424	15396	160,983
State Charter School Facilities Incentive Grant Program	84.282D	[1]	314,878
Total Federal Programs			$ 2,669,338

[1] Pass-Through Entity Identifying Number not available.

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

ORGANIZATION

The Organization operates ten schools in California. Each school is operated on the same tax identification number as the Organization. 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, 2020, the schools operated by the Organization were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Students Served
Magnolia Science Academy	0438	Los Angeles County Office of Education	June 30, 2022	6 - 12	650
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2022	6 - 12	435
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2022	6 - 12	497
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2023	6 - 12	131
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2023	6 - 12	281
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2024	6 - 8	134
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2024	K - 5	291
Magnolia Science Academy Bell	1236	Los Angeles Unified School District	June 30, 2025	6 - 8	482
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2024	K - 12	546
Magnolia Science Academy San Diego	0698	San Diego Unified School District	June 30, 2024	6 - 8	443

Magnolia Educational & Research Foundation
Local Education Agency Organization Structure
June 30, 2020

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2020 and 2019

	MERF	MSA	MSA 2
Assets			
Current assets			
Cash and cash equivalents	$ 3,193,616	$ 2,636,263	$ 2,288,348
Accounts receivable	453,452	1,343,289	803,707
Intracompany receivable	77,584	-	-
Prepaid expenses	-	107,966	2,197
Total current assets	3,724,652	4,087,518	3,094,252
Non-current assets			
Capital contribution	-	161,923	-
Restricted cash	-	-	-
Property and equipment, net	15,759	3,539,439	149,268
Total non-current assets	15,759	3,701,362	149,268
Total assets	$ 3,740,411	$ 7,788,880	$ 3,243,520
Liabilities			
Current liabilities			
Accounts payable	$ 678,278	$ 1,247,311	$ 1,034,276
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	534,572	789,701	632,270
Intracompany payable	572,859	449,753	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	1,785,709	2,486,765	1,666,546
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	1,785,709	2,486,765	1,666,546
Net Assets			
Without donor restrictions	1,954,702	5,302,115	1,576,974
Total liabilities and net assets	$ 3,740,411	$ 7,788,880	$ 3,243,520

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2020 and 2019

	MSA 3	MSA 4	MSA 5
Assets			
Current assets			
Cash and cash equivalents	$ 1,393,344	$ 1,317,106	$ 1,478,382
Accounts receivable	766,829	180,928	500,853
Intracompany receivable	-	-	988,341
Prepaid expenses	833	758	1,667
Total current assets	2,161,006	1,498,792	2,969,243
Non-current assets			
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment, net	32,056	42,347	59,649
Total non-current assets	32,056	42,347	59,649
Total assets	$ 2,193,062	$ 1,541,139	$ 3,028,892
Liabilities			
Current liabilities			
Accounts payable	$ 764,750	$ 402,920	$ 571,523
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	627,597	229,930	349,985
Intracompany payable	-	-	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	1,392,347	632,850	921,508
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	1,392,347	632,850	921,508
Net Assets			
Without donor restrictions	800,715	908,289	2,107,384
Total liabilities and net assets	$ 2,193,062	$ 1,541,139	$ 3,028,892

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2020 and 2019

	MSA 6	MSA 7	MSA Bell
Assets			
Current assets			
Cash and cash equivalents	$ 2,024,300	$ 1,632,981	$ 3,014,092
Accounts receivable	199,173	496,732	679,993
Intracompany receivable	-	-	2,248,498
Prepaid expenses	455	1,742	1,061
Total current assets	2,223,928	2,131,455	5,943,644
Non-current assets			
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment, net	43,937	504,930	77,038
Total non-current assets	43,937	504,930	77,038
Total assets	$ 2,267,865	$ 2,636,385	$ 6,020,682
Liabilities			
Current liabilities			
Accounts payable	$ 223,027	$ 399,239	$ 656,545
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	193,294	358,254	576,190
Intracompany payable	-	-	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	416,321	757,493	1,232,735
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	416,321	757,493	1,232,735
Net Assets			
Without donor restrictions	1,851,544	1,878,892	4,787,947
Total liabilities and net assets	$ 2,267,865	$ 2,636,385	$ 6,020,682

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2020 and 2019

	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC
Assets			
Current assets			
Cash and cash equivalents	$ 2,509,874	$ 1,269,671	$ 2,122,426
Accounts receivable	575,383	523,286	-
Intracompany receivable	-	10	-
Prepaid expenses	3,106	-	-
Total current assets	3,088,363	1,792,967	2,122,426
Non-current assets			
Capital contribution	75,554	198,191	-
Restricted cash	-	-	2,282,168
Property and equipment, net	20,467,997	289,648	27,423,607
Total non-current assets	20,543,551	487,839	29,705,775
Total assets	$ 23,631,914	$ 2,280,806	$ 31,828,201
Liabilities			
Current liabilities			
Accounts payable	$ 1,730,927	$ 533,441	$ -
Refundable advance	-	-	446,653
Refundable advance - Paycheck Protection Program (PPP)	751,656	418,151	-
Intracompany payable	1,405,810	886,011	-
Current portion of notes payable	99,583	-	-
Current portion of bonds payable	-	-	655,000
Current portion of revolving loan	232,597	-	-
Total current liabilities	4,220,573	1,837,603	1,101,653
Long-term liabilities			
Notes payable, less current portion	3,986,805	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	28,447,667
Revolving loan, less current portion	7,805,977	151,806	-
Total long-term liabilities	11,792,782	151,806	28,447,667
Total liabilities	16,013,355	1,989,409	29,549,320
Net Assets			
Without donor restrictions	7,618,559	291,397	2,278,881
Total liabilities and net assets	$ 23,631,914	$ 2,280,806	$ 31,828,201

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2020 and 2019

	Eliminations	2020 Consolidated	2019 Consolidated
Assets			
Current assets			
Cash and cash equivalents	$ -	$ 24,880,403	$ 21,113,077
Accounts receivable	(53,273)	6,470,352	4,871,200
Intracompany receivable	(3,314,433)	-	-
Prepaid expenses	-	119,785	53,464
Total current assets	(3,367,706)	31,470,540	26,037,741
Non-current assets			
Capital contribution	(435,668)	-	-
Restricted cash	-	2,282,168	2,299,814
Property and equipment, net	-	52,645,675	50,490,691
Total non-current assets	(435,668)	54,927,843	52,790,505
Total assets	$ (3,803,374)	$ 86,398,383	$ 78,828,246
Liabilities			
Current liabilities			
Accounts payable	$ (53,273)	$ 8,188,964	$ 6,051,459
Refundable advance	-	446,653	2,367,850
Refundable advance - Paycheck Protection Program (PPP)	-	5,461,600	-
Intracompany payable	(3,314,433)	-	-
Current portion of notes payable	-	99,583	94,583
Current portion of bonds payable	-	655,000	620,000
Current portion of revolving loan	-	232,597	228,013
Total current liabilities	(3,367,706)	15,084,397	9,361,905
Long-term liabilities			
Notes payable, less current portion	-	3,986,805	4,086,805
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	28,447,667	29,076,587
Revolving loan, less current portion	-	7,957,783	8,189,246
Total long-term liabilities	-	40,392,255	41,352,638
Total liabilities	(3,367,706)	55,476,652	50,714,543
Net Assets			
Without donor restrictions	(435,668)	30,921,731	28,113,703
Total liabilities and net assets	$ (3,803,374)	$ 86,398,383	$ 78,828,246

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Consolidating Statement of Activities
Year Ended June 30, 2020 and 2019

	Magnolia Educational & Research Foundation	Magnolia Science Academy	Magnolia Science Academy 2
Support and revenues			
Local Control Funding Formula	$ -	$ 7,240,548	$ 4,795,130
Federal revenue	-	765,438	252,373
Other state revenue	57,314	1,608,028	621,972
Local revenues	5,359,493	80,955	279,455
Rental income	-	-	-
Total support and revenues	5,416,807	9,694,969	5,948,930
Expenses			
Program services	1,260,005	5,269,036	3,644,323
Management and general	3,599,507	3,985,976	1,744,185
Total expenses	4,859,512	9,255,012	5,388,508
Change in Net Assets	557,295	439,957	560,422
Intracompany transfers			
Transfer in	63,700	-	-
Transfer out	(289,954)	-	-
Change in Net Assets after intracompany transfers	331,041	439,957	560,422
Net Assets, Beginning of Year	1,623,661	4,862,158	1,016,552
Net Assets, End of Year	$ 1,954,702	$ 5,302,115	$ 1,576,974

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Consolidating Statement of Activities
Year Ended June 30, 2020 and 2019

	Magnolia Science Academy 3	Magnolia Science Academy 4	Magnolia Science Academy 5
Support and revenues			
Local Control Funding Formula	$ 5,140,719	$ 1,419,604	$ 3,043,774
Federal revenue	264,608	103,688	148,113
Other state revenue	807,212	235,912	430,857
Local revenues	45,934	82,139	70,980
Rental income	-	-	-
Total support and revenues	6,258,473	1,841,343	3,693,724
Expenses			
Program services	3,759,580	1,537,125	2,205,021
Management and general	2,745,186	718,657	1,163,326
Total expenses	6,504,766	2,255,782	3,368,347
Change in Net Assets	(246,293)	(414,439)	325,377
Intracompany transfers			
Transfer in	-	-	-
Transfer out	-	-	-
Change in Net Assets after intracompany transfers	(246,293)	(414,439)	325,377
Net Assets, Beginning of Year	1,047,008	1,322,728	1,782,007
Net Assets, End of Year	$ 800,715	$ 908,289	$ 2,107,384

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2020 and 2019

	Magnolia Science Academy 6	Magnolia Science Academy 7	Magnolia Science Academy Bell
Support and revenues			
Local Control Funding Formula	$ 1,338,848	$ 2,953,282	$ 4,878,258
Federal revenue	107,108	171,913	345,797
Other state revenue	274,441	639,729	790,683
Local revenues	51,055	119,708	4,958
Rental income	-	-	-
Total support and revenues	1,771,452	3,884,632	6,019,696
Expenses			
Program services	1,192,690	2,124,147	3,280,088
Management and general	541,508	1,424,233	2,187,220
Total expenses	1,734,198	3,548,380	5,467,308
Change in Net Assets	37,254	336,252	552,388
Intracompany transfers			
Transfer in	-	-	-
Transfer out	-	-	-
Change in Net Assets after intracompany transfers	37,254	336,252	552,388
Net Assets, Beginning of Year	1,814,290	1,542,640	4,235,559
Net Assets, End of Year	$ 1,851,544	$ 1,878,892	$ 4,787,947

See Note to Supplementary Information

Magnolia Educational & Research Foundation

Consolidating Statement of Activities
Year Ended June 30, 2020 and 2019

	Magnolia Science Academy Santa Ana	Magnolia Science Academy Santa Diego	MPM Inc. / LLC
Support and revenues			
Local Control Funding Formula	$ 6,056,968	$ 3,564,024	$ -
Federal revenue	571,325	117,611	-
Other state revenue	758,855	576,753	-
Local revenues	107,674	128,973	36,961
Rental income	-	-	2,493,333
Total support and revenues	7,494,822	4,387,361	2,530,294
Expenses			
Program services	4,940,362	2,763,459	253,340
Management and general	2,464,417	1,675,167	1,655,917
Total expenses	7,404,779	4,438,626	1,909,257
Change in Net Assets	90,043	(51,265)	621,037
Intracompany transfers			
Transfer in	-	-	289,954
Transfer out	-	-	(63,700)
Change in Net Assets after intracompany transfers	90,043	(51,265)	847,291
Net Assets, Beginning of Year	7,528,516	342,662	1,431,590
Net Assets, End of Year	$ 7,618,559	$ 291,397	$ 2,278,881

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Consolidating Statement of Activities

Year Ended June 30, 2020 and 2019

	Eliminations	2020 Consolidated	2019 Consolidated
Support and revenues			
Local Control Funding Formula	$ -	$ 40,431,155	$ 39,134,304
Federal revenue	-	2,847,974	2,728,824
Other state revenue	-	6,801,756	7,421,950
Local revenues	(5,077,775)	1,290,510	722,973
Rental income	(2,493,333)	-	-
Total support and revenues	(7,571,108)	51,371,395	50,008,051
Expenses			
Program services	-	32,229,176	32,968,880
Management and general	(7,571,108)	16,334,191	15,836,430
Total expenses	(7,571,108)	48,563,367	48,805,310
Change in Net Assets	-	2,808,028	1,202,741
Intracompany transfers			
Transfer in	(353,654)	-	-
Transfer out	353,654	-	-
Change in Net Assets after intracompany transfers	-	2,808,028	1,202,741
Net Assets, Beginning of Year	(435,668)	28,113,703	26,910,962
Net Assets, End of Year	$ (435,668)	$ 30,921,731	$ 28,113,703

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Foundation Only Comparative Statement of Financial Position

June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash	$ 3,193,616	$ 2,681,572
Accounts receivable	453,452	63,475
Intracompany receivable	77,584	1,412,686
Prepaid expenses	-	14,665
Total current assets	3,724,652	4,172,398
Non-current assets		
Property and equipment, net	15,759	16,618
Total assets	$ 3,740,411	$ 4,189,016
Liabilities		
Current liabilities		
Accounts payable	$ 678,278	$ 417,280
Refundable advance - Paycheck Protection Program (PPP)	534,572	-
Intracompany payable	572,859	2,148,075
Total liabilities	1,785,709	2,565,355
Net Assets		
Without donor restrictions	$ 1,954,702	$ 1,623,661
Total liabilities and net assets	$ 3,740,411	$ 4,189,016

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Foundation Only Comparative Statement of Activities

Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Other state revenue	$ 57,314	$ -
Local revenues	5,359,493	5,864,094
Total support and revenues	5,416,807	5,864,094
Expenses		
Program services	1,260,005	1,635,659
Management and general	3,599,507	3,398,735
Total expenses	4,859,512	5,034,394
Change in Net Assets	557,295	829,700
Intracompany transfers		
Transfer in	63,700	-
Transfer out	(289,954)	-
Change in Net Assets after intracompany transfers	331,041	829,700
Net Assets, Beginning of Year	1,623,661	793,961
Net Assets, End of Year	$ 1,954,702	$ 1,623,661

See Note to Supplementary Information

Magnolia Educational & Research Foundation

Foundation Only Comparative Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	$ 655,777	$ 2,030,557	$ 2,686,334
Employee benefits	263,590	-	263,590
Payroll taxes	204,512	224,063	428,575
Fees for services	-	922,811	922,811
Advertising and promotions	-	12,929	12,929
Office expenses	1,130	16,193	17,323
Information technology	85,569	-	85,569
Occupancy	-	207,295	207,295
Travel	-	44,352	44,352
Conferences and meeting	-	2,364	2,364
Depreciation	859	-	859
Insurance	-	30,308	30,308
Other expenses	-	108,635	108,635
Capital outlay	19,276	-	19,276
Instructional materials	116	-	116
Nutrition	29,176	-	29,176
Total functional expenses	$ 1,260,005	$ 3,599,507	$ 4,859,512

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Foundation Only Comparative Statement of Cash Flows
Year Ended June 30, 2020

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 331,038	$ 50,314
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	859	71,472
Changes in operating assets and liabilities		
Accounts receivable	(389,977)	76,036
Intercompany receivable	1,335,102	(261,033)
Prepaid expenses	14,665	258,620
Accounts payable	261,001	735,307
Refundable advance	-	13,462
Refundable advance - PPP	534,572	-
Intercompany payable	(1,575,216)	(48,327)
Net Cash from Operating Activities	7,918,458	2,206,518
Net Change in Cash	512,044	895,851
Cash, Beginning of Year	2,681,572	2,044,087
Cash, End of Year	$ 3,193,616	$ 2,939,938
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Debt Covenants

Year Ended June 30, 2020

Magnolia Science Academy

Debt Service Coverage

Net income	$	439,957
Depreciation and amortization		68,205
Management fees (50%)		430,263
Rent		1,391,320
Income Available for Coverage		2,329,745
Debt Service		1,391,320

Debt Service Coverage	1.67
Limit	1.10
Compliance	Yes

Consolidated Days Cash on Hand

Total Expenses	$	9,255,012
Depreciation and amortization		68,205
Cash Expenses		9,186,807
Expense/Day		25,169
Cash		2,636,263

Days Cash on Hand	105
Limit	45
Compliance	Yes

See Note to Supplementary Information

Magnolia Educational & Research Foundation

Debt Covenants

Year Ended June 30, 2020

Magnolia Science Academy Santa Ana

Debt Service Coverage

Net income	$	90,043
Depreciation and amortization		583,197
Management fees (50%)		292,763
Rent		582,787
Income Available for Coverage		1,548,790
Debt Service		582,787

Debt Service Coverage	2.66
Limit	1.10
Compliance	Yes

Consolidated Days Cash on Hand

Total Expenses	$	7,404,779
Depreciation and amortization		583,197
Cash Expenses		6,821,582
Expense/Day		18,689
Cash		2,509,874

Days Cash on Hand	134
Limit	45
Compliance	Yes

See Note to Supplementary Information

Magnolia Educational & Research Foundation
Debt Covenants
Year Ended June 30, 2020

Magnolia Science Academy San Diego

Debt Service Coverage

Net income	$	(51,265)
Depreciation and amortization		14,699
Management fees (50%)		97,501
Rent		476,172
Income Available for Coverage		537,107
Debt Service		476,172

Debt Service Coverage	1.13
Limit	1.10
Compliance	Yes

Consolidated Days Cash on Hand

Total Expenses	$	4,438,626
Depreciation and amortization		14,699
Cash Expenses		4,423,927
Expense/Day		12,120
Cash		1,269,671

Days Cash on Hand	105
Limit	45
Compliance	Yes

Magnolia Educational & Research Foundation

Consolidating Schedule of Property and Equipment

Year Ended June 30, 2020

	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Leasehold improvements	-	2,360,135	-	-	-	-	-
Building	-	226,898	10,062	-	-	-	-
Computer and equipment	134,513	422,141	562,449	283,698	206,678	225,539	196,157
Work in progress	-	960,171	-	-	-	-	-
Total property and equipment	134,513	3,969,345	572,511	283,698	206,678	225,539	196,157
Less accumulated depreciation	(118,754)	(429,906)	(423,243)	(251,642)	(164,331)	(165,890)	(152,220)
Total	$ 15,759	$ 3,539,439	$ 149,268	$ 32,056	$ 42,347	$ 59,649	$ 43,937

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation

Consolidating Schedule of Property and Equipment

Year Ended June 30, 2020

	MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	2020 Consolidated	2019 Consolidated
Land	$ -	$ -	$ -	$ -	$ 2,566,854	$ 2,566,854	$ 2,566,854
Building improvements	-	-	-	-	-	2,360,135	-
Building	492,294	-	22,352,893	-	24,546,747	47,628,894	28,398,928
Computer and equipment	139,454	393,497	350,261	692,124	-	3,606,511	2,808,123
Work in progress	-	-	-	-	1,466,201	2,426,372	21,587,963
Total property and equipment	631,748	393,497	22,703,154	692,124	28,579,802	58,588,766	55,361,868
Less accumulated depreciation	(126,818)	(316,459)	(2,235,157)	(402,476)	(1,156,195)	(5,943,091)	(4,871,177)
Total	$ 504,930	$ 77,038	$ 20,467,997	$ 289,648	$ 27,423,607	$ 52,645,675	$ 50,490,691

See Note to Supplementary Information

FINAL DRAFT 3.5.2021

Note 1 - Purpose of Supplementary Schedules

Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2020. The information 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). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate

The Organization has not elected to use the ten percent de minimis cost rate.

The Schedule Reconciliation

The following schedule provides reconciliation between revenues reported on the consolidated Statement of Activities, and the related expenses reported on the schedule. The reconciling amounts consist primarily of State Charter School Facilities Incentive Grant Program funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2020. These unspent balances are reported as legally restricted ending balances within the Organization.

Description	CFDA Number	Amount
Total Federal Revenues reported on the consolidated financial statements		$ 2,847,974
State Charter School Facilities Incentive Grant Program	84.282D	(178,636)
Total Schedule of Expenditures of Federal Awards		$ 2,669,338

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Consolidating Statement of Financial Position and Consolidating Statement of Activities

The Consolidating Statement of Financial Position and Consolidating Statement of Activities report the activities of the Organization and related entities and are presented on the accrual basis of accounting. Eliminating entries in the Consolidating Statement of Financial Position and Consolidating Statement of Activities are for activities between Organization and the related entities.

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of Magnolia Education & Research Foundation and are presented on the accrual basis of accounting.

Debt Covenants

Some of the Organization's loan agreements are subject to covenant clauses, whereby the Organization is required to meet certain key financial ratios. This schedule provides information related to the debt covenant ratios and related information.

Consolidating Schedule of Property and Equipment

The accompanying consolidating schedule of property and equipment present the comparative balances for Organization and the Subsidiaries property and equipment.

Independent Auditor’s Reports
June 30, 2020

Magnolia Educational & Research Foundation

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
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 and Subsidiaries (the Organization) which comprise the consolidated statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated _____________, 2021.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
________________, 2021

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on Compliance for the Major Federal Program
We have audited Magnolia Educational & Research Foundation's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization's major federal program is 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 the Organization's major Federal program 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 the Organization'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 the major Federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance
Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Organization'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
_________________, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Title I, Part A, Basic Grants Low-Income and Neglected	84.010

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

The following finding represents significant deficiencies related to the consolidated financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable, prepaid expenses, accounts payable, and refundable advance were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

The timing of the accrual was during a transition period for new management making it difficult to implement this level of internal control to monitor year end accruals.

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

The Organization agrees that having an internal control system over monitoring the year end accruals is an important part of the Organization's overall internal control process. The Organization has created processes to monitor and implement these controls.

None reported.

FINAL DRAFT 3.5.2021

Magnolia Educational & Research Foundation
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

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

FINAL DRAFT 3.5.2021