MAGNOLIA PUBLIC SCHOOLS

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

Proposed Board Recommendation

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

Background

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

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

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

In an audit engagement:

- The auditor explains that preparing the financial statements and maintaining sound internal control is management responsibility;
- The auditor explains its 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 2018-19 states that the financial statements present fairly, in all material aspects, the respective financial position of the Charter School, as of June 30, 2019. The changes in its net assets, its cash flows for the year that ended, in accordance with accounting principles generally accepted in the United States of America.

Budget Implications

None.

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

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

Name of Staff Originator:

Nanie Montijo, Chief Financial Officer

Exhibits (attachments):

2018-19 Audit Reports for each MPS school

2018-19 MERF and Consolidated Audit Report

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

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

Rancho Cucamonga, California
_________________, 2019

FINANCIAL STATEMENTS

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

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

JUNE 30, 2019

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

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

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

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

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

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

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

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

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2019, MERF operated ten Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,957 students throughout California dedicated to inspiring students to choose career paths in science, technology, engineering, and math (STEM), while providing a robust, standards-based education program within a supportive culture of excellence.

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

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

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

Other Related Entities

Magnolia Properties Management, Inc. (MPM Inc.)

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

MPM Sherman Way, LLC

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

MPM Santa Ana, LLC

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

MPM San Diego, LLC

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

Principles of Consolidation

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Property and Equipment

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

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

Net Assets

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

> Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:
>
> > Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

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

Revenue and Revenue Recognition

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

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

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

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The Charter School is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Charter School is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Charter School determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Charter School to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Charter School's mission.

Intracompany Payable

Intracompany payable results from a net cumulative difference between resources provided or used by the CMO to the Charter Schools and reimbursement for those resources.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-For-Profit Entities. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School’s donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School’s intermediate measure of operations as well as disclosures to improve a financial statement user’s ability to assess the Charter School’s liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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

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

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 21,478,410	$ (21,478,410)	$ -
Net assets without donor restrictions		21,478,410	21,478,410
Net assets, end of the year			
Unrestricted	$ 26,910,962	$ (26,910,962)	$ -
Net assets without donor restrictions	-	26,910,962	26,910,962

NOTE 2 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 21,006,470	$ 22,600,493
Accounts receivable	4,871,200	4,781,620
Prepaid expenses and other assets	53,464	1,027,408
Financial Assets, at year end	25,931,134	28,409,521
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(2,391,084)	(2,443,468)
Financial assets available to meet cash needs for general expenditures within one year	$ 23,540,050	$ 25,966,053

NOTE 3 - CASH AND CASH EQUIVALENTS

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 20,332,541	$ 23,309,682	$ 22,096,194	$ 25,881,140
Cash with Orange County Investment Pool	591,479	N/A	442,241	N/A
Cash with San Diego County Investment Pool	82,450	N/A	62,058	N/A
Total	$ 21,006,470	$ 23,309,682	$ 22,600,493	$ 25,881,140

The majority of MERF's cash is held in bank accounts, which are subject to federally insured limits of $250,000. MERF has not experienced any losses in such accounts. At June 30, 2019 and 2018, MERF had $22,809,682 and $25,388,140, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 4 - RESTRICTED CASH

At June 30, 2019 and 2018, cash held for restricted purposes consisted of the following:

	2019	2018
Current restricted cash	$ 2,406,421	$ 4,659,987

The majority of MERF's restricted cash is held in bank accounts, which are subject to federally insured limits of $250,000. MERF has not experienced any losses in such accounts. At June 30, 2019 and 2018, MERF had $2,156,421 and $4,409,987, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 5 - INVESTMENTS

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

Investment Type	2019 Reported Amount	2018 Reported Amount
Orange County Pooled Investment Funds	$ 591,479	$ 442,241
San Diego County Pooled Investment Funds	82,450	62,058
Total	$ 673,929	$ 504,299

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

Interest Rate Risk

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

Weighted Average Maturity

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

	2019		2018	
Investment Type	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled Investment Funds	$ 591,479	310	$ 442,241	302
San Diego County Pooled Investment Funds	82,450	528	62,058	370
Total	$ 673,929		$ 504,299	

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

The fair value measurements are as follows at June 30, 2019:

	2019		2018	
Investment Type	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
Orange County Pooled Investment Funds	$ 591,479	$ 591,479	$ 442,241	$ 442,241
San Diego County Pooled Investment Funds	82,450	82,450	62,058	62,058
Total	$ 673,929	$ 673,929	$ 504,299	$ 504,299

NOTE 7 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 2,581,620	$ 2,261,602
Federal receivables	555,845	965,463
State receivables	1,244,316	1,216,639
Lottery	175,873	335,247
Local receivables	313,546	2,669
	$ 4,871,200	$ 4,781,620

NOTE 8 - PREPAID EXPENSES AND OTHER CURENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 53,464	$ 1,027,408

NOTE 9 – PROPERTY AND EQUIPMENT

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

	2019	2018
Land	$ 2,566,854	$ 2,386,854
Building improvements	28,388,867	28,388,867
Computers and equipment	2,808,123	2,775,055
Leasehold improvements	10,061	384,879
Work in progress	21,587,963	12,119,894
Subtotal	55,361,868	46,055,549
Less: accumulated depreciation	(4,871,177)	(4,120,699)
Total Property and Equipment	$ 50,490,691	$ 41,934,850

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 1,231,219	$ 733,254
Compensated absences	121,768	121,768
Due to grantor	-	395,910
Vendor payable	4,617,314	1,981,453
	$ 5,970,301	$ 3,232,385

NOTE 11 - DEFERRED REVENUE

Deferred revenue at June 30, 2019, consisted of the following:

	2019	2018
State sources	$ 2,367,850	$ 2,290,659

NOTE 12 - LONG-TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, MPM Sherman Way, MPM Santa Ana, and MPM San Diego (the Lessees) or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MERF by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019 and 2018, MSA had a 3.39 and 3.16, respectively, Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

2019 Debt Service Coverage		2018 Debt Service Coverage	
Net Income	$ 1,283,899	Net Income	$ 5,432,552
Depreciation	1,125,296	Depreciation	1,228,552
Management fees (50%)	3,040,412	Management fees (50%)	3,196,425
Rent	2,277,538	Rent	1,614,758
Income Available for Coverage	7,727,145	Income Available for Coverage	11,472,287
Debt Service	2,277,538	Debt Service	1,614,758
Debt Service Coverage	3.39	Debt Service Coverage	7.10
Limit	1.10	Limit	1.10
Compliance	Yes	Compliance	Yes

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

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019 and 2018, MERF had 580 and 229, respectively days cash on hand and was in compliance with the 45 days required.

2019			2018		
Days Cash on Hand			Days Cash on Hand		
Total Expenses	$	14,343,782	Total Expenses	$	16,435,335
Depreciation		1,125,296	Depreciation		1,228,552
Cash Expenses		13,218,486	Cash Expenses		15,206,783
Expense/Day		36,215	Expense/Day		41,662
Cash		21,006,470	Cash		22,600,493
Days Cash on Hand		580	Days Cash on Hand		542
Limit		45	Limit		45
Compliance		Yes	Compliance		Yes

California School Finance Authority (CSFA) School Facility Revenue Bonds

Series 2014A and 2014B

In June 2014, the CSFA issued $6,020,000 in School Facilities Revenues, Series 2014A and Series 2014B for the purpose of a loan to MPM Sherman Way, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in August 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2019, the principal balance outstanding was $5,695,000.

Series 2017A-1 and 2017A-2

In August 2017, the CSFA issued $25,000,000 in School Facilities Revenues, Series 2017A-1 and Series 2017A-2 for the purpose of a loan to MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM Sand Diego, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in July 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2019, the principal balance outstanding was $25,000,000.

The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	$ 620,000	$ 1,641,088	$ 2,261,088
2021	655,000	1,607,444	2,262,444
2022	685,000	1,607,444	2,292,444
2023	720,000	1,572,269	2,292,269
2024	760,000	1,535,387	2,295,387
2025-2029	4,310,000	7,117,626	11,427,626
2030-2034	5,025,000	6,498,538	11,523,538
2035-2039	6,735,000	4,843,338	11,578,338
2040-2044	9,035,000	2,611,500	11,646,500
2045	2,150,000	256,319	2,406,319
Total	$ 30,695,000	$ 29,290,953	$ 59,985,953

Loans (CCSFP)

Magnolia Science Academy Santa Ana (MSA SA)

Magnolia Science Academy Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSFP) for $17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of $8,706,990 and the other 50 percent through a grant in the amount of $8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2019, was $8,264,342.

Fiscal Year Ending June 30,	Payments
2020	$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	(2,519,103)
Total	$ 8,265,453

Magnolia Science Academy San Diego (MSA SD)

Magnolia Science Academy San Diego has been approved by the State of California's Charter School Facilities Program (CCSFP) for $3,036,122 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of $1,518,061 and the other 50 percent through a grant in the amount of $1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA SD's State School Fund Apportionments. The outstanding loan balance as of June 30, 2019, was $151,806.

Note Payable

Magnolia Science Academy (MSA 1)

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of $1,480,000 on September 6, 2017 and the second advance of $2,785,000 on December 22, 2017. Monthly payment terms include an interest rate of ten percent beginning in 2017 and maturing June 30, 2045. The balance as of June 30, 2019 was $4,181,388.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	(6,472,654)
Total	$ 4,181,388

NOTE 13 - NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	2,391,084	2,443,468
Unrestricted	25,803,777	24,467,494
Total Net Assets without Donor Restrictions	$ 28,194,861	$ 26,910,962

NOTE 14 - FACILITIES USES AGREEMENTS

Magnolia Educational & Research Foundation

The Magnolia Educational and Research Foundation entered into a lease agreement with Kajima Development Corporation on February 18, 2016, for the property located at 250 E. First Street, Los Angeles, California. Monthly payments in the amount of $13,000 shall be made beginning in fiscal year 2015-2016. The term of the lease expires on April 30, 2023. Lease payments during 2018-2019 were $166,200.

Year Ending June 30,	Facility Lease Payments
2020	$ 171,600
2021	177,600
2022	184,600
2023	158,000
Total	$ 691,800

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

Magnolia Science Academy

The Magnolia Science Academy entered into a lease agreement with MPM Sherman Way, LLC on June 1, 2014, for the property located at 18238 Sherman Way, Reseda, California. Monthly payments shall be made beginning in fiscal year 2014-2015. The term of the lease expires on June 25, 2044. Lease payments during 2018-2019 were $1,291,901.

Year Ending June 30,	Facility Lease Payments
2020	$ 1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
Thereafter	27,255,683
Total	$33,754,437

Magnolia Science Academy 7

The Magnolia Science Academy 7 entered into a lease agreement with First Lutheran Church of Northridge on December 1, 2011, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating the Charter School educational programs and related Charter School activities and include rental fees shall that shall be paid on the first of every month. Monthly payments in the amount of $14,000 shall be made beginning in fiscal year 2011-2012 and increase 3 percent annually and ending in fiscal year 2021-2022. Lease payments during 2018-2019 were $280,236

Fiscal Year	Facility Lease Payments
2020	$ 265,656
2021	273,624
2022	281,832
Total	$ 821,112

Magnolia Science Academy San Diego

The Magnolia Science Academy San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating the Charter School education programs and related Charter Schools activities. The terms of this agreement expires on June 30, 2020 and include rental fees that shall be paid on the first of every month. Lease payments during 2018-2019 were $240,000.

Year Ending June 30,	Facility Lease Payments
2020	$ 240,000

The Magnolia Science Academy San Diego entered into a lease agreement with MPM Sherman Way, LLC on August 1, 2017, for the property located at 6525 Estrella Avenue, San Diego, California. Monthly payments shall be made beginning in fiscal year 2017-2018. The term of the lease expires on July 1, 2044. Lease payments during 2018-2019 were $473,760.

Year Ending June 30,	Facility Lease Payments
2020	$ 476,172
2021	476,397
2022	478,130
2023	481,275
2024	482,139
Thereafter	10,281,145
Total	$12,675,258

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

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

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

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Foundation contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2019, 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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the Foundation's total contributions were $2,532,531 and $2,272,070, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Foundation is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $654,602 and $485,547, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $2,037,817 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $192,107 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITY

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

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and Magnolia Science Academy Charter Schools are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2019 and 2018, Magnolia Science Academy Charter Schools made payments of $441,986 and $448,499, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 17 - CONTINGENCIES

Grants

MERF has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MERF is not currently a party to any legal proceedings.

NOTE 18 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements through _____________, 2019, which is the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year consolidated financial statements.

SUPPLEMENTARY INFORMATION

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

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through CDE:			
Elementary and Secondary Education Act			
Title I, Part A	84.010	14329	$ 1,368,355
Title II, Part A	84.367	14341	164,399
Title III, English Learner Student Program	84.365	14346	69,329
Title IV, Part A	84.424	15391	114,231
Special Education - Basic Local Assistance	84.027	13379	592,160
State Charter School Facilities Incentive Grants	84.242D	[1]	411,215
Total Expenditures of Federal Awards			$ 2,719,689

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2019

ORGANIZATION

MERF operates ten schools in California under ten charters. Each school is operated on the same tax identification number as MERF. Charters were granted for each school for up to five years, with an opportunity for renewal. Charters may be revoked by the charter authorizer for material violations of the charter, failure to meet or make progress toward student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. As of June 30, 2019, the Foundations operated by MERF were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Number of Students Served
Magnolia Science Academy	0438	Los Angeles County Office of Education	June 30, 2022	6-12	590
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2022	6-12	437
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2022	6-12	510
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2023	6-12	176
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2023	6-12	248
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2024	6-8	156
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2024	K-5	291
Magnolia Science Academy 8	1236	Los Angeles Unified School District	June 30, 2020	6-8	471
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2020	6-8	674
Magnolia Science Academy San Diego	698	San Diego Unified School District	June 30, 2024	K-12	404

See accompanying note to supplementary information.

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE, *Continued*
FOR THE YEAR ENDED JUNE 30, 2019

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Assets	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Current Assets							
Cash	$ 2,681,572	$ 2,939,938	$ 1,158,184	$ 991,716	$ 1,475,263	$ 1,987,156	$ 1,719,960
Accounts receivable	63,475	1,273,139	576,220	777,695	290,221	337,071	256,078
Intracompany receivable	1,412,686	849,433	153,812	6,759	46,259	1,026	8,002
Prepaid expenses and other current assets	14,665	2,059	1,091	613	377	-	9,714
Total Current Assets	4,172,398	5,064,569	1,889,307	1,776,783	1,812,120	2,325,253	1,993,754
Non-Current Assets							
Investments in LLC	-	161,923	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-
Bond issue costs, net	-	-	-	-	-	-	-
Security deposit	-	-	-	-	-	-	-
Property and equipment	134,513	1,114,916	410,237	267,427	178,296	205,518	158,971
Less: accumulated depreciation	(117,895)	(361,701)	(364,182)	(245,203)	(147,493)	(141,155)	(148,877)
Total Non-Current Assets	16,618	915,138	46,055	22,224	30,803	64,363	10,094
Total Assets	$ 4,189,016	$ 5,979,707	$ 1,935,362	$ 1,799,007	$ 1,842,923	$ 2,389,616	$ 2,003,848
Liabilities							
Current Liabilities							
Accounts payable	$ 301,673	$ 1,002,872	$ 863,200	$ 730,924	$ 518,992	$ 496,724	$ 175,226
Deferred revenue	-	13,462	11,351	11,368	1,136	5,090	12,223
Intracompany payable	2,148,075	101,215	44,258	9,705	66	105,795	2,110
Current portion of long-term debt	-	-	-	-	-	-	-
Total Current Liabilities	2,449,748	1,117,549	918,809	751,997	520,194	607,609	189,559
Long-Term Obligations							
Non-current portion of long-term debt	-	-	-	-	-	-	-
Total Liabilities	2,449,748	1,117,549	918,809	751,997	520,194	607,609	189,559
Net Assets							
Without donor restrictions							
Designated	-	721,439	284,380	362,240	-	284,969	217,955
Unrestricted	1,739,268	4,140,719	732,173	684,770	1,322,729	1,497,038	1,596,334
Total Net Assets	1,739,268	4,862,158	1,016,553	1,047,010	1,322,729	1,782,007	1,814,289
Total Liabilities and Net Assets	$ 4,189,016	$ 5,979,707	$ 1,935,362	$ 1,799,007	$ 1,842,923	$ 2,389,616	$ 2,003,848

See accompanying note to supplementary information.

MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	Elimination	2019 Total	2018 Total
$ 1,314,944	$ 2,529,656	$ 882,408	$ 235,322	$ 3,090,351	$ -	$ 21,006,470	$ 22,600,493
409,828	536,075	217,899	133,499	-	-	4,871,200	4,781,620
-	1,811,055	618,358	116,401	-	(5,023,791)	-	-
23,786	233	635	291	-	-	53,464	1,027,408
1,748,558	4,877,019	1,719,300	485,513	3,090,351	(5,023,791)	25,931,134	28,409,521
-	-	75,554	198,191	-	(435,668)	-	-
-	-	-	106,607	2,299,814	-	2,406,421	4,659,987
-	-	-	-	998,413	-	998,413	1,076,199
-	-	-	-	-	-	-	43,117
290,998	353,397	22,622,538	667,450	28,957,607	-	55,361,868	46,055,549
(122,900)	(253,100)	(1,651,959)	(387,776)	(928,936)	-	(4,871,177)	(4,120,699)
168,098	100,297	21,046,133	584,472	31,326,898	(435,668)	53,895,525	47,714,153
$ 1,916,656	$ 4,977,316	$ 22,765,433	$ 1,069,985	$ 34,417,249	$ (5,459,459)	$ 79,826,659	$ 76,123,674
$ 359,410	$ 721,283	$ 413,797	$ 386,200	$ -	$ -	$ 5,970,301	$ 3,232,385
1,859	20,038	664	-	2,290,659	-	2,367,850	2,290,659
12,746	434	2,375,621	223,766	-	(5,023,791)	-	-
-	-	322,596	-	620,000	-	942,596	901,166
374,015	741,755	3,112,678	609,966	2,910,659	(5,023,791)	9,280,747	6,424,210
-	-	12,124,245	151,806	30,075,000	-	42,351,051	42,788,502
374,015	741,755	15,236,923	761,772	32,985,659	(5,023,791)	51,631,798	49,212,712
9,783	-	272,871	237,447	-	-	2,391,084	2,443,468
1,532,858	4,235,561	7,255,639	70,766	1,431,590	(435,668)	25,803,777	24,467,494
1,542,641	4,235,561	7,528,510	308,213	1,431,590	(435,668)	28,194,861	26,910,962
$ 1,916,656	$ 4,977,316	$ 22,765,433	$ 1,069,985	$ 34,417,249	$ (5,459,459)	$ 79,826,659	$ 76,123,674

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

CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2019

	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Revenues							
Local Control Funding Formula	$ -	$ 6,399,704	$ 4,605,903	$ 5,190,998	$ 1,797,472	$ 2,519,073	$ 1,496,543
Federal revenue	-	663,788	297,621	253,403	107,915	136,309	98,528
State revenue	-	1,863,464	736,395	925,719	263,369	239,173	321,358
Local revenue	5,864,094	323,831	74,393	66,432	83,494	13,837	5,441
Rental income	-	-	-	-	-	-	-
Total Revenues	5,864,094	9,250,787	5,714,312	6,436,552	2,252,250	2,908,392	1,921,870
Expenses							
Program services	1,492,035	5,181,054	3,662,733	3,762,174	1,604,257	2,130,052	1,242,399
Management and general	3,426,752	4,019,419	2,152,256	2,691,085	795,778	891,665	469,080
Total Expenses	4,918,787	9,200,473	5,814,989	6,453,259	2,400,035	3,021,717	1,711,479
Change in Net Assets	945,307	50,314	(100,677)	(16,707)	(147,785)	(113,325)	210,391
Net Assets, Beginning of Year	793,961	4,811,844	1,117,230	1,063,717	1,470,514	1,895,332	1,603,898
Net Assets, End of Year	$ 1,739,268	$ 4,862,158	$ 1,016,553	$ 1,047,010	$ 1,322,729	$ 1,782,007	$ 1,814,289

See accompanying note to supplementary information.

MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	Elimination	2019 Total	2018 Total
$ 2,764,875	$ 4,646,128	$ 6,767,105	$ 2,946,503	$ -	$ -	$ 39,134,304	$ 36,259,514
314,706	334,005	415,188	107,361	-	-	2,728,824	3,851,301
796,108	750,585	981,462	544,317	-	-	7,421,950	8,196,747
56,165	31,869	74,339	93,070	116,832	(6,080,824)	722,973	1,528,298
-	-	-	-	2,849,864	(2,849,864)	-	-
3,931,854	5,762,587	8,238,094	3,691,251	2,966,696	(8,930,688)	50,008,051	49,835,860
2,246,312	3,331,289	5,241,451	2,738,687	227,260	-	32,859,703	27,967,973
1,641,097	2,279,454	2,970,426	1,797,437	1,660,688	(8,930,688)	15,864,449	16,435,335
3,887,409	5,610,743	8,211,877	4,536,124	1,887,948	(8,930,688)	48,724,152	44,403,308
44,445	151,844	26,217	(844,873)	1,078,748	-	1,283,899	5,432,552
1,498,196	4,083,717	7,502,293	1,153,086	352,842	(435,668)	26,910,962	21,478,410
$ 1,542,641	$ 4,235,561	$ 7,528,510	$ 308,213	$ 1,431,590	$ (435,668)	$ 28,194,861	$ 26,910,962

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

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 2,681,572	$ 475,054
Accounts receivable	63,475	-
Intercompany receivable	1,412,686	2,263,534
Prepaid expenses and other current assets	14,665	419,062
Total Current Assets	4,172,398	3,157,650
Non-Current Assets		
Security deposit	-	16,000
Property and equipment	134,513	134,513
Less: accumulated depreciation	(117,895)	(117,723)
Total Non-Current Assets	16,618	32,790
Total Assets	$ 4,189,016	$ 3,190,440
Liabilities		
Current Liabilities		
Accounts payable	$ 301,673	$ 296,731
Intercompany payable	2,148,075	2,099,748
Total Liabilities	2,449,748	2,396,479
Net Assets		
Without donor restrictions		
Unrestricted	1,739,268	793,961
Total Liabilities and Net Assets	$ 4,189,016	$ 3,190,440

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

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

JUNE 30, 2019

	2019	2018
Revenues		
Local revenue	$ 5,864,094	$ 6,803,273
Expenses		
Program services	1,492,035	2,482,099
Management and general	3,426,752	2,760,435
Total Expenses	4,918,787	5,242,534
Change in Net Assets	945,307	1,560,739
Net Assets (Deficit), Beginning of Year	793,961	(766,778)
Net Assets, End of Year	$ 1,739,268	$ 793,961

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

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

JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ 945,307	$ 1,560,739
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	172	933
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(63,475)	463
Decrease in intercompany receivable	850,848	535,324
(Increase) Decrease in prepaid expenses	404,397	(1,351)
Decrease in security deposits	16,000	-
Increase (Decrease) in accounts payable	4,942	(146,773)
Increase (Decrease) in intercompany payable	48,327	(1,454,452)
(Decrease) in deferred revenue	-	(72,500)
Net Cash Provided by Operating Activities	2,206,518	422,383
Net Increase in Cash	2,206,518	422,383
Cash, Beginning of Year	475,054	52,671
Cash, End of Year	$ 2,681,572	$ 475,054
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF FUNCTIONAL EXPENSES

(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 521,064	$ 1,838,289	$ 2,359,353
Employee benefits	328,068	-	328,068
Payroll taxes	349,973	251,565	601,538
Total Personnel	1,199,105	2,089,854	3,288,959
Operating			
Fees for services	-	357,530	357,530
Advertising and promotions	-	27,581	27,581
Office expenses	245	11,658	11,903
Information technology	106,471	-	106,471
Occupancy	-	182,901	182,901
Travel	-	58,386	58,386
Conferences and meeting	-	3,000	3,000
Depreciation	172	-	172
Insurance	-	37,541	37,541
Other expenses	20,437	658,301	678,738
Capital outlay	23,259	-	23,259
Instructional materials	122,079	-	122,079
Nutrition	20,267	-	20,267
Total Operating	292,930	1,336,898	1,629,828
Total Functional Expenses	$ 1,492,035	$ 3,426,752	$ 4,918,787

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Activities and Changes in Net Assets, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds which have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the net assets

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 2,728,824
Medi-Cal Billing Option	93.778	(9,135)
Total Schedule of Expenditures of Federal Awards		$ 2,719,689

Local Education Agency Organization Structure

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

Consolidating Statements

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

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of MERF and are presented on the accrual basis of accounting.

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Educational & Research Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_______________, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation's (the Charter) major Federal programs for the year ended June 30, 2019. Magnolia Educational & Research Foundation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Magnolia Educational & Research Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of Magnolia Educational & Research Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Magnolia Educational & Research Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Magnolia Educational & Research Foundation's internal control over compliance.

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

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

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

Rancho Cucamonga, California
________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance ?	No

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Part A

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

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

None reported.

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

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

There were no audit findings reported in the prior year.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

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

Rancho Cucamonga, California
____________, 2019

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 2,939,938	$ 2,044,087
Accounts receivable	1,273,139	1,349,175
Intercompany receivable	849,433	588,400
Prepaid expenses and other current assets	2,059	260,679
Total Current Assets	5,064,569	4,242,341
Non-Current Assets		
Investments in LLC	161,923	161,923
Property and equipment	1,114,916	1,489,734
Less: accumulated depreciation	(361,701)	(665,047)
Total Non-Current Assets	915,138	986,610
Total Assets	$ 5,979,707	$ 5,228,951
Liabilities		
Current Liabilities		
Accounts payable	$ 1,002,872	$ 267,565
Deferred revenue	13,462	-
Intercompany payable	101,215	149,542
Total Liabilities	1,117,549	417,107
Net Assets		
Without donor restrictions		
Designated	721,439	365,716
Unrestricted	4,140,719	4,446,128
Total Net Assets	4,862,158	4,811,844
Total Liabilities and Net Assets	$ 5,979,707	$ 5,228,951

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 6,399,704	$ 5,502,695
Federal revenue	663,788	980,659
State revenue	1,863,464	1,589,193
Local revenue	323,831	175,333
Total Revenues	9,250,787	8,247,880
Expenses		
Program services	5,181,054	3,559,737
Management and general	4,019,419	3,262,574
Total Expenses	9,200,473	6,822,311
Change in Net Assets	50,314	1,425,569
Net Assets, Beginning of Year	4,811,844	3,386,275
Net Assets, End of Year	$ 4,862,158	$ 4,811,844

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ 50,314	$ 1,425,569
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	71,472	6,361
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	76,036	(470,449)
(Increase) in intercompany receivable	(261,033)	(115,468)
Decrease in prepaid expenses	258,620	20,186
Increase (Decrease) in accounts payable	735,307	(94,280)
(Decrease) in intercompany payable	(48,327)	(85,783)
Increase in deferred revenue	13,462	-
Net Cash Provided by Operating Activities	895,851	686,136
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(161,923)
Proceeds from sale of property and equipment	-	3,008,448
Net Cash Provided by Investing Activities	-	2,846,525
Cash Flows From Financing Activities		
Loan payment	-	(2,800,000)
Net Increase in Cash	895,851	732,661
Cash, Beginning of Year	2,044,087	1,311,426
Cash, End of Year	$ 2,939,938	$ 2,044,087

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 2,851,586	$ 668,816	$ 3,520,402
Employee benefits	442,998	-	442,998
Payroll taxes	894,031	173,949	1,067,980
Total Personnel	4,188,615	842,765	5,031,380
Operating			
Fees for services	-	336,798	336,798
Advertising and promotions	-	22,719	22,719
Office expenses	48,826	41,534	90,360
Information technology	11,538	-	11,538
Occupancy	-	1,643,613	1,643,613
Travel	-	9,608	9,608
Depreciation	71,472	-	71,472
Insurance	-	41,001	41,001
Other expenses	84,923	83,477	168,400
Capital outlay	532,510	-	532,510
Special Education Local Plan Area fees	41,980	-	41,980
Instructional materials	116,643	-	116,643
Nutrition	20,900	-	20,900
District oversight fees	63,647	-	63,647
Management fees	-	997,904	997,904
Total Operating	992,439	3,176,654	4,169,093
Total Functional Expenses	$ 5,181,054	$ 4,019,419	$ 9,200,473

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

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (MSA) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 590 students. MSA was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

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

MPM Sherman Way, LLC

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Intercompany Receivable/Payable

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

Prepaid Expenses

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

Fixed Assets

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

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

Net Assets

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

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

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

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

Revenue and Revenue Recognition

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

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the MSA's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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

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

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 3,386,275	$ (3,386,275)	$ -
Net assets without donor restrictions		3,386,275	3,386,275
Net assets, end of the year			
Unrestricted	$ 4,811,844	$ (4,811,844)	$ -
Net assets without donor restrictions	-	4,811,844	4,811,844

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 2,939,938	$ 3,000,038	$ 2,044,087	$ 2,188,763

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA had a balance of $2,958,185 and $2,153,528, respectively, in excess of FDIC insured limits. Management believes MSA is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 2,939,938	$ 2,044,087
Accounts receivable	1,273,139	1,349,175
Prepaid expenses and other assets	2,059	260,679
Intercompany receivables	849,433	588,400
Financial Assets, at year end	5,064,569	4,242,341
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(721,439)	(365,716)
Financial assets available to meet cash needs for general expenditures within one year	$ 4,343,130	$ 3,876,625

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 584,926	$ 388,547
Federal receivables	98,959	160,149
State receivables	463,753	748,648
Lottery	32,440	51,831
Local receivables	93,061	-
	$ 1,273,139	$ 1,349,175

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA had an intercompany receivable balance of $849,433 and $588,400, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 2,059	$ 260,679

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Building improvements	$ -	$ 374,818
Computers and equipment	422,141	422,141
Work in progress	692,775	692,775
Subtotal	1,114,916	1,489,734
Less: accumulated depreciation	(361,701)	(665,047)
Total property and equipment	$ 753,215	$ 824,687

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 39,382	$ 94,591
Vendor payable	963,490	64,974
Due to other agencies	-	108,000
	$ 1,002,872	$ 267,565

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA had an intercompany payable balance of $101,215 and $149,542, respectively, from the Foundation.

NOTE 10 - LONG–TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

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

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from Magnolia Science Academy (MSA) by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019 and 2018, MSA had a 1.48 and 2.56, respectively, Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

2019			2018		
Debt Service Coverage			Debt Service Coverage		
Net Income	$	50,314	Net Income	$	1,425,569
Depreciation		71,472	Depreciation		6,361
Management fees (50%)		498,952	Management fees (50%)		547,935
Rent		1,287,278	Rent		916,260
Income Available for Coverage		1,908,016	Income Available for Coverage		2,896,125
Debt Service		1,287,278	Debt Service		916,260
Debt Service Coverage		**1.48**	**Debt Service Coverage**		**3.16**
Limit		1.10	Limit		1.10
Compliance		Yes	Compliance		Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019 and 2018, MSA had 113 days cash on hand and was in compliance with the 45 days required.

2019			2018		
Days Cash on Hand			Days Cash on Hand		
Total Expenses	$	4,169,093	Total Expenses	$	3,262,574
Depreciation		71,472	Depreciation		6,361
Cash Expenses		4,097,621	Cash Expenses		3,256,213
Expense/Day		11,226	Expense/Day		8,921
Cash		2,939,938	Cash		2,044,087
Days Cash on Hand		**262**	**Days Cash on Hand**		**229**
Limit		45	Limit		45
Compliance		Yes	Compliance		Yes

NOTE 11 – FACILITY USE LEASE

Magnolia Science Academy entered into a lease agreement with MPM Sherman Way LLC, a California limited liability company on June 1, 2014 and August 1, 2017 for the refinancing of the acquisition and construction of charter school facilities under the Series 2014 and 2017 Loans for property located at 18238 Sherman Way, Reseda, California. The 2014 and 2017 loans are in relations to California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A and Series 2014B (Taxable) and (Magnolia Public Schools- Obligated Group) Draw Down Series 2017, respectively, the use payments shall be paid in 12 equal monthly installments.

Year Ending June 30,	Facility Lease Payments
2020	$ 1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
Thereafter	27,255,683
Total	$ 33,754,437

NOTE 12 - RELATED PARTY TRANSACTIONS

MSA is part of the Foundation. MSA pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal years ended June 30, 2019 and 2018, were $997,904 and $1,095,870, respectively.

NOTE 13 - NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 721,439	$ 365,716
Unrestricted	4,140,719	4,446,128
Total Net Assets without Donor Restrictions	$ 4,862,158	$ 4,811,844

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2019, 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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA's total contributions were $384,044 and $404,295, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $76,394 and $73,135, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $421,022 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $43,171 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

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

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA made payments of $66,932 and $61,724, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, MSA had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - CONTINGENCIES

Grants

MSA has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

Magnolia Science Academy is not currently a party to any legal proceedings.

NOTE 17 - SUBSEQUENT EVENTS

MSA's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy (Charter Number 0438) was granted on December 20, 2016, by the Los Angeles County of Education. MSA operates one school, grades six through twelve.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	128.05	127.53
Seventh and eighth	167.68	166.71
Ninth through twelfth	271.84	271.74
Total Regular ADA	567.57	565.98
Classroom based ADA		
Fourth through sixth	128.05	127.53
Seventh and eighth	167.68	166.71
Ninth through twelfth	271.84	271.74
Total Classroom based ADA	567.57	565.98

MSA did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	64,953	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		64,953	181	N/A	Complied
Grade 8		64,953	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,953	181	N/A	Complied
Grade 10		64,953	181	N/A	Complied
Grade 11		64,953	181	N/A	Complied
Grade 12		64,953	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 4,774,078
Increase (Decrease) in:	
Cash and cash equivalents	(34,274)
Accounts receivable	748,218
(Increase) in:	
Accounts payable	(612,402)
Deferred revenue	(13,462)
Net Assets, June 30, 2019, Audited Financial Statement	$ 4,862,158

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students.

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy (MSA) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated __________, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

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

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

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

MSA does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

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

Rancho Cucamonga, California
_________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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

There were no audit findings reported in the prior year.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 2 (MSA 2) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 2's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 2's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 2, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2019, on our consideration of MSA 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 2's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 2's internal control over financial reporting and compliance.

Rancho Cucamonga, California
______________, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,158,184	$ 1,094,844
Accounts receivable	576,220	521,854
Intercompany receivable	153,812	62,177
Prepaid expenses and other current assets	1,091	87,263
Total Current Assets	1,889,307	1,766,138
Non-Current Assets		
Property and equipment	410,237	410,237
Less: accumulated depreciation	(364,182)	(294,698)
Total Non-Current Assets	46,055	115,539
Total Assets	$ 1,935,362	$ 1,881,677
Liabilities		
Current Liabilities		
Accounts payable	$ 863,200	$ 729,383
Deferred revenue	11,351	-
Intercompany payable	44,258	35,064
Total Liabilities	918,809	764,447
Net Assets		
Without donor restrictions		
Designated	284,380	834,378
Unrestricted	732,173	282,852
Total Net Assets	1,016,553	1,117,230
Total Liabilities and Net Assets	$ 1,935,362	$ 1,881,677

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 4,605,903	$ 4,472,148
Federal revenue	297,621	489,784
State revenue	736,395	825,899
Local revenue	74,393	105,589
Total Revenues	5,714,312	5,893,420
Expenses		
Program services	3,662,733	3,207,945
Management and general	2,152,256	2,465,331
Total Expenses	5,814,989	5,673,276
Change in Net Assets	(100,677)	220,144
Net Assets, Beginning of Year	1,117,230	897,086
Net Assets, End of Year	$ 1,016,553	$ 1,117,230

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (100,677)	$ 220,144
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	69,484	48,000
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(54,366)	(149,165)
(Increase) Decrease in intercompany receivable	(91,635)	81,076
(Increase) Decrease in prepaid expenses	86,172	(65,461)
Increase in accounts payable	133,817	175,388
Increase in intercompany payable	9,194	19,578
Increase in deferred revenue	11,351	-
Net Cash Provided by Operating Activities	63,340	329,560
Cash Flows From Investing Activities		
Capital expenditures	-	(15,448)
Net Increase in Cash	63,340	314,112
Cash, Beginning of Year	1,094,844	780,732
Cash, End of Year	$ 1,158,184	$ 1,094,844

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 2,158,383	$ 510,301	$ 2,668,684
Employee benefits	354,709	-	354,709
Payroll taxes	624,621	132,551	757,172
Total Personnel	3,137,713	642,852	3,780,565
Operating			
Fees for services	-	276,798	276,798
Advertising and promotions	-	15,208	15,208
Office expenses	33,600	11,417	45,017
Information technology	14,020	-	14,020
Occupancy	-	185,850	185,850
Travel	-	11,608	11,608
Conferences and meeting	-	555	555
Depreciation	69,484	-	69,484
Insurance	-	23,471	23,471
Other expenses	73,680	80,146	153,826
Capital outlay	126,102	-	126,102
Special Education Local Plan Area fees	36,739	-	36,739
Instructional materials	119,942	-	119,942
Nutrition	5,468	-	5,468
District oversight fees	45,985	-	45,985
Management fees	-	904,351	904,351
Total Operating	525,020	1,509,404	2,034,424
Total Functional Expenses	$ 3,662,733	$ 2,152,256	$ 5,814,989

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (MSA 2) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 437 students. MSA 2 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2018 for a period of five years ending in 2022. MSA 2 is economically dependent on Federal and State funding. Magnolia Public Schools provides a college preparatory educational program emphasizing science, technology, engineering, and math (STEM) in a safe environment that cultivates respect for self and others. Graduates of Magnolia Public Schools are scientific thinkers who contribute to the global community as socially responsible and educated members of society.

Magnolia Educational and Research Foundation

MSA 2 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 2's Charter School Management Organization (CMO) that manages MSA 2's nonacademic operation such as financial, general administration, and human resource management. MSA 2's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the MSA 2’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

MSA 2 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

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

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between MSA 2.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 2 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

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

MSA 2 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. MSA 2's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

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

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 2reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 2 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 2 are derived principally from state and federal sources. MSA 2 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2019

Income Taxes

MSA 2 is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, MSA 2 is not aware of any such actions at this time.

MSA 2 has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 2 to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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

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

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 897,086	$ (897,086)	$ -
Net assets without donor restrictions		897,086	897,086
Net assets, end of the year			
Unrestricted	$ 1,117,230	$ (1,117,230)	$ -
Net assets without donor restrictions	-	1,117,230	1,117,230

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 1,158,184	$ 1,202,538	$ 1,094,844	$ 1,262,083

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 2 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 2 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 2 had $1,158,184 and $1,241,766, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 1,158,184	$ 1,094,844
Accounts receivable	576,220	521,854
Prepaid expenses and other assets	1,091	87,263
Intercompany receivables	153,812	62,177
Financial Assets, at year end	1,889,307	1,766,138
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(284,380)	(834,378)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,604,927	$ 931,760

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 329,832	$ 280,263
Federal receivables	78,352	159,670
State receivables	114,600	37,137
Lottery	27,143	43,499
Local receivables	26,293	1,285
	$ 576,220	$ 521,854

NOTE 5 – INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 2 had an intercompany receivable balance of $153,812 and $62,177, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 1,091	$ 87,263

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Building improvements	$ 10,061	$ 10,061
Computers and equipment	379,284	379,284
Work in progress	20,892	20,892
Subtotal	410,237	410,237
Less: accumulated depreciation	(364,182)	(294,698)
Total property and equipment	$ 46,055	$ 115,539

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 161,622	$ 139,121
Vendor payable	701,578	260,848
Due to other agencies	-	329,414
	$ 863,200	$ 729,383

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 2 had an intercompany payable balance of $44,258 and $35,064, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 2 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 2 education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was $125,833 and $327,715, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 2 is part of the Foundation. MSA 2 pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, were $904,351 and $993,132, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 284,380	$ 834,378
Unrestricted	732,173	282,852
Total Net Assets without Donor Restrictions	$ 1,016,553	$ 1,117,230

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 2 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 2 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 2 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 2 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 2's total contributions were $313,658 and $266,980, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, 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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 2 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $75,915 and $59,003, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $280,028 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $22,925 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 2 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time." Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 2 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 2 is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 2 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 2 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 2 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 2 made payments of $44,820 and $39,165, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 2 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 2's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ___________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 2 (Charter Number 0906) was granted on July 1, 2002, by the Los Angeles Unified School District. MSA 2 operates one school, grades six through twelve.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	90.59	90.17
Seventh and eighth	157.72	156.50
Ninth through twelfth	167.11	166.38
Total Regular ADA	415.42	413.05
Classroom based ADA		
Fourth through sixth	90.59	90.17
Seventh and eighth	157.72	156.50
Ninth through twelfth	167.11	166.38
Total Classroom based ADA	415.42	413.05

MSA 2 does not operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	64,934	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		64,934	181	N/A	Complied
Grade 8		64,934	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,934	181	N/A	Complied
Grade 10		64,934	181	N/A	Complied
Grade 11		64,934	181	N/A	Complied
Grade 12		64,934	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 1,319,745
Increase (Decrease) in:	
Accounts receivable	(98,360)
Intercompany receivable	151,393
(Increase) in:	
Accounts payable	(303,036)
Deferred revenue	(11,351)
Intercompany payable	(41,838)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,016,553

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 2. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 2 and whether MSA 2 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 2 (MSA 2) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ________________, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 2's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 2's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 2's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 2's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on State Compliance

We have audited Magnolia Science Academy 2's (MSA 2) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 2's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 2's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 2's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 2 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 2's compliance with the State laws and regulations applicable to the following items:

	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	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

MSA 2 does not operate a Before or After School Program within the After/Before School Education and Safety Program; therefore, we did not perform and related procedures.

MSA 2 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Finding for Non Classroom-Based Instruction.

MSA 2 did not receive funding for Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
___________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

None reported.

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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

There were no audit findings reported in the prior year.

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 3 (MSA 3) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 3's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 3's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 3, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ____________, 2019, on our consideration of MSA 3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 3's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_________________, 2019

FINANCIAL STATEMENTS

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

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 991,716	$ 740,137
Accounts receivable	777,695	440,748
Intercompany receivable	6,759	6,604
Prepaid expenses and other current assets	613	1,743
Total Current Assets	1,776,783	1,189,232
Non-Current Assets		
Property and equipment	267,427	267,427
Less: accumulated depreciation	(245,203)	(181,398)
Total Non-Current Assets	22,224	86,029
Total Assets	$ 1,799,007	$ 1,275,261
Liabilities		
Current Liabilities		
Accounts payable	$ 730,924	$ 208,639
Deferred revenue	11,368	-
Intercompany payable	9,705	2,905
Total Liabilities	751,997	211,544
Net Assets		
Without donor restrictions		
Designated	362,240	788,750
Unrestricted	684,770	274,967
Total Net Assets	1,047,010	1,063,717
Total Liabilities and Net Assets	$ 1,799,007	$ 1,275,261

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 5,190,998	$ 4,459,164
Federal revenue	253,403	444,672
State revenue	925,719	925,197
Local revenue	66,432	84,847
Total Revenues	6,436,552	5,913,880
Expenses		
Program services	3,762,174	3,059,187
Management and general	2,691,085	2,422,937
Total Expenses	6,453,259	5,482,124
Change in Net Assets	(16,707)	431,756
Net Assets, Beginning of Year	1,063,717	631,961
Net Assets, End of Year	$ 1,047,010	$ 1,063,717

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (16,707)	$ 431,756
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	63,804	22,407
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(336,947)	(123,130)
(Increase) Decrease in intercompany receivable	(154)	84,758
Decrease in prepaid expenses	1,130	318,762
Increase (Decrease) in accounts payable	522,285	(22,140)
(Decrease) in intercompany payable	6,800	(110,351)
Increase in deferred revenue	11,368	-
Net Cash Provided by Operating Activities	251,579	602,062
Cash Flows From Investing Activities		
Capital expenditures	-	(40,554)
Net Increase in Cash	251,579	561,508
Cash, Beginning of Year	740,137	178,629
Cash, End of Year	$ 991,716	$ 740,137
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 2,258,329	$ 692,282	$ 2,950,611
Employee benefits	370,288	-	370,288
Payroll taxes	571,448	197,654	769,102
Total Personnel	3,200,065	889,936	4,090,001
Operating			
Fees for services	-	338,321	338,321
Advertising and promotions	-	8,007	8,007
Office expenses	51,694	8,548	60,242
Information technology	13,229	-	13,229
Occupancy	-	350,943	350,943
Travel	-	3,959	3,959
Depreciation	63,804	-	63,804
Insurance	-	22,212	22,212
Other expenses	170,589	71,255	241,844
Capital outlay	54,021	-	54,021
Special Education Local Plan Area fees	71,672	-	71,672
Instructional materials	69,795	-	69,795
Nutrition	15,404	-	15,404
District oversight fees	51,901	-	51,901
Management fees	-	997,904	997,904
Total Operating	562,109	1,801,149	2,363,258
Total Functional Expenses	$ 3,762,174	$ 2,691,085	$ 6,453,259

The accompanying notes are an integral part of these 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 (MSA 3) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 510 students. MSA 3 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA 3 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 3 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 3's Charter School Management Organization (CMO) that manages MSA 3's nonacademic operation such as financial, general administration, and human resource management. MSA 3's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the MSA 3's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 3 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

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

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 3.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The MSA 3 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

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

The MSA 3 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

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

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

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

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The MSA 3 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 3 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the MSA 3 are derived principally from state and federal sources. The MSA 3 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The MSA 3 receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The MSA 3 is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the MSA 3 is not aware of any such actions at this time.

The MSA 3 has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 3 to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MSA 3 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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

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

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 631,961	$ (631,961)	$ -
Net assets without donor restrictions		631,961	631,961
Net assets, end of the year			
Unrestricted	$ 1,063,717	$ (1,063,717)	$ -
Net assets without donor restrictions	-	1,063,717	1,063,717

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 991,716	$ 1,227,875	$ 740,137	$ 855,539

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 3 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 3 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 3 had $1,210,745 and $841,766, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 991,716	$ 740,137
Accounts receivable	777,695	440,748
Prepaid expenses and other assets	613	1,743
Intercompany receivables	6,759	6,604
Financial Assets, at year end	1,776,783	1,189,232
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(362,240)	(788,750)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,414,543	$ 400,482

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 452,225	$ 202,714
Federal receivables	121,148	145,084
State receivables	100,965	46,855
Lottery	27,500	45,141
Local receivables	75,857	954
	$ 777,695	$ 440,748

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. On June 30, 2019 and 2018, MSA 3 had an intercompany receivable balance of $6,759 and $6,604, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 613	$ 1,743

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Computers and equipment	$ 250,814	$ 250,814
Work in progress	16,613	16,613
Subtotal	267,427	267,427
Less: accumulated depreciation	(245,203)	(181,398)
Total property and equipment	$ 22,224	$ 86,029

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 164,381	$ 64,352
Vendor payable	566,543	77,326
Due to other agencies	-	66,961
	$ 730,924	$ 208,639

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 3 had an intercompany payable balance of $9,705 and $2,905, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 3 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 3 education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was $320,544 and $250,380, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 3 is part of the Foundation. MSA 3 pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, was $997,904 and $993,132, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 362,240	$ 788,750
Unrestricted	684,770	274,967
Total Net Assets without Donor Restrictions	$ 1,047,010	$ 1,063,717

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 3 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 3 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 3 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 3 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 3's total contributions were $304,152 and $223,107, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 3 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $106,852 and $86,521, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $236,577 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $38,542 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 3 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 3 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 3 is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 3 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 3 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 3 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 3 made payments of $48,516 and $43,143, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 3 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 3's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

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

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

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

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	73.11	72.53
Seventh and eighth	201.24	200.28
Ninth through twelfth	210.46	209.36
Total Regular ADA	484.81	482.17
Classroom based ADA		
Fourth through sixth	73.11	72.53
Seventh and eighth	201.24	200.28
Ninth through twelfth	210.46	209.36
Total Classroom based ADA	484.81	482.17

MSA 3 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

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

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	65,416	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		65,416	180	N/A	Complied
Grade 8		65,416	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,416	180	N/A	Complied
Grade 10		65,416	180	N/A	Complied
Grade 11		65,416	180	N/A	Complied
Grade 12		65,416	180	N/A	Complied

See accompanying note to supplementary information.

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

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 1,344,948
Increase in:	
Accounts receivable	77,111
Intercompany receivable	3,854
(Increase) in:	
Accounts payable	(360,735)
Deferred revenue	(11,368)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,047,010

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 3. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 3 and whether MSA 3 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy (MSA 3) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _______________, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 3's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 3's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 3's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 3's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA 3) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 3's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 3's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 3's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 3's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 3 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 3's compliance with the State laws and regulations applicable to the following items:

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

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

MSA 3 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 3 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 3 does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA 3 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_______________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

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

None reported.

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

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

There were no audit findings reported in the prior year.

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 4 (MSA 4) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 4's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 4's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 4, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____________, 2019, on our consideration of MSA 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 4's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 4's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_______________, 2019

FINANCIAL STATEMENTS

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

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,475,263	$ 1,336,770
Accounts receivable	290,221	156,659
Intercompany receivable	46,259	936
Prepaid expenses and other current assets	377	377
Total Current Assets	1,812,120	1,494,742
Non-Current Assets		
Property and equipment	178,296	178,296
Less: accumulated depreciation	(147,493)	(131,837)
Total Non-Current Assets	30,803	46,459
Total Assets	$ 1,842,923	$ 1,541,201
Liabilities		
Current Liabilities		
Accounts payable	$ 518,992	$ 70,621
Deferred revenue	1,136	-
Intercompany payable	66	66
Total Liabilities	520,194	70,687
Net Assets		
Without donor restrictions		
Designated	-	265,107
Unrestricted	1,322,729	1,205,407
Total Net Assets	1,322,729	1,470,514
Total Liabilities and Net Assets	$ 1,842,923	$ 1,541,201

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 1,797,472	$ 1,713,551
Federal revenue	107,915	243,319
State revenue	263,369	444,462
Local revenue	83,494	45,510
Total Revenues	2,252,250	2,446,842
Expenses		
Program services	1,604,257	1,311,729
Management and general	795,778	694,758
Total Expenses	2,400,035	2,006,487
Change in Net Assets	(147,785)	440,355
Net Assets, Beginning of Year	1,470,514	1,030,159
Net Assets, End of Year	$ 1,322,729	$ 1,470,514

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (147,785)	$ 440,355
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	15,656	15,656
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(133,562)	19,281
(Increase) Decrease in intercompany receivable	(45,323)	253,007
Decrease in prepaid expenses	-	8,567
Increase (Decrease) in accounts payable	448,371	(139,935)
(Decrease) in intercompany payable	-	(28,126)
Increase in deferred revenue	1,136	-
Net Cash Provided by Operating Activities	138,493	568,805
Cash Flows From Investing Activities		
Capital expenditures	-	(8,385)
Net Increase in Cash	138,493	560,420
Cash, Beginning of Year	1,336,770	776,350
Cash, End of Year	$ 1,475,263	$ 1,336,770
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 966,205	$ 138,385	$ 1,104,590
Employee benefits	141,539	-	141,539
Payroll taxes	239,455	29,648	269,103
Total Personnel	1,347,199	168,033	1,515,232
Operating			
Fees for services	-	271,585	271,585
Advertising and promotions	-	4,092	4,092
Office expenses	20,986	7,899	28,885
Information technology	7,103	-	7,103
Occupancy	-	207,722	207,722
Travel	-	8,599	8,599
Conferences and meeting	-	2,579	2,579
Depreciation	15,656	-	15,656
Insurance	-	8,532	8,532
Other expenses	88,196	41,894	130,090
Capital outlay	26,729	-	26,729
Special Education Local Plan Area fees	52,785	-	52,785
Instructional materials	25,907	-	25,907
Nutrition	1,772	-	1,772
District oversight fees	17,924	-	17,924
Management fees	-	74,843	74,843
Total Operating	257,058	627,745	884,803
Total Functional Expenses	$ 1,604,257	$ 795,778	$ 2,400,035

The accompanying notes are an integral part of these 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 (MSA 4) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 176 students. MSA 4 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA 4 was granted a five year extension through June 30, 2025. MSA 4 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 4 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 4's Charter School Management Organization (CMO) that manages MSA 4's nonacademic operation such as financial, general administration, and human resource management. MSA 4's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the MSA 4's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 4 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

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

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 4.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The MSA 4 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

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

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

Net Assets

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

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

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

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The MSA 4 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the MSA 4 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the MSA 4 are derived principally from state and federal sources. The MSA 4 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The MSA 4 is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the MSA 4 is not aware of any such actions at this time.

The MSA 4 has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the MSA 4 to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MSA 4 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the MSA 4 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the MSA 4's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the MSA 4's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the MSA 4's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The MSA 4 has elected not to present comparative information for these amendments.

The MSA 4 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 4's financial reporting.

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 1,030,159	$ (1,030,159)	$ -
Net assets without donor restrictions		1,030,159	1,030,159
Net assets, end of the year			
Unrestricted	$ 1,470,514	$ (1,470,514)	$ -
Net assets without donor restrictions	-	1,470,514	1,470,514

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 1,475,263	$ 1,507,491	$ 1,336,770	$ 1,414,246

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 4 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 4 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 4 had $4,486,460 and $1,391,479, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 1,475,263	$ 1,336,770
Accounts receivable	290,221	156,659
Prepaid expenses and other assets	377	377
Intercompany receivables	46,259	936
Financial Assets, at year end	1,812,120	1,494,742
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	-	(265,107)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,812,120	$ 1,229,635

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

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 215,570	$ 70,394
Federal receivables	9,235	49,072
State receivables	53,758	22,095
Lottery	10,595	14,885
Local receivables	1,063	213
	$ 290,221	$ 156,659

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 4 had an intercompany receivable balance of $46,259 and $936, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 377	$ 377

NOTE 7 – PRORPERTY AND EQUIPMENT

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

	2019	2018
Computers and equipment	$ 164,670	$ 164,670
Work in progress	13,626	13,626
Subtotal	178,296	178,296
Less: accumulated depreciation	(147,493)	(131,837)
Total property and equipment	$ 30,803	$ 46,459

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 44,279	$ 35,401
Vendor payable	474,713	35,192
Due to other agencies	-	28
	$ 518,992	$ 70,621

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 4 had an intercompany payable balance of $66 and $66, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 4 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 4 education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was $185,858 and $131,925, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 4 is part of the Foundation. MSA 4 pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, was $84,843 and $82,190, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ -	$ 265,107
Unrestricted	1,322,729	1,205,407
Total Net Assets without Donor Restrictions	$ 1,322,729	$ 1,470,514

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 4 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 4 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 4 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 4 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 4's total contributions were $134,783 and $90,278, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2017. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, 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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 4 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $13,505 and $11,951, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $89,782 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $5,274 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 4 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 4 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 4 is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 4 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 4 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 4 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 4 made payments of $18,703 and $21,542, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 4 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 4's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

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

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 4 (Charter Number 0986) was granted on May 8, 2008, by the Los Angeles Unified School District. MSA 4 operates one school, grades six through twelve.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

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

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	11.78	11.72
Seventh and eighth	26.09	25.92
Ninth through twelfth	123.78	123.38
Total Regular ADA	161.65	161.02
Classroom based ADA		
Fourth through sixth	11.78	11.72
Seventh and eighth	26.09	25.92
Ninth through twelfth	123.78	123.38
Total Classroom based ADA	161.65	161.02

MSA 4 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

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

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	65,501	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		65,501	181	N/A	Complied
Grade 8		65,501	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,501	181	N/A	Complied
Grade 10		65,501	181	N/A	Complied
Grade 11		65,501	181	N/A	Complied
Grade 12		65,501	181	N/A	Complied

See accompanying note to supplementary information.

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

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 1,495,924
Increase (Decrease) in:	
Accounts receivable	47,252
Intercompany receivable	46,259
(Increase) in:	
Accounts payable	(222,059)
Deferred revenue	(1,136)
Intercompany payable	(66)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,322,729

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 4. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 4 and whether MSA 4 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 4 (MSA 4) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _______________, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 4's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 4's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 4's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
__________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy 4's (MSA 4) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 4's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 4's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 4's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 4's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 4 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019,

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 4's compliance with the State laws and regulations applicable to the following items:

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

MSA 4 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 4 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 4 does not offer Non classroom-Based Instruction; therefore, we did not perform any procedures related to Non classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non classroom-Based Instruction.

MSA 4 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

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

FINANCIAL STATEMENTS

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

STATE AWARDS

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

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

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

None reported.

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

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

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

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 5 (MSA 5) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 5's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 5's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 5, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _____________, 2019, on our consideration of MSA 5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 5's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 5's internal control over financial reporting and compliance.

Rancho Cucamonga, California
______________, 2019

FINANCIAL STATEMENTS

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

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,987,156	$ 1,731,955
Accounts receivable	337,071	157,623
Intercompany receivable	1,026	22,592
Prepaid expenses and other current assets	-	11,698
Total Current Assets	2,325,253	1,923,868
Non-Current Assets		
Property and equipment	205,518	205,518
Less: accumulated depreciation	(141,155)	(123,576)
Total Non-Current Assets	64,363	81,942
Total Assets	$ 2,389,616	$ 2,005,810
Liabilities		
Current Liabilities		
Accounts payable	$ 496,724	$ 102,310
Deferred revenue	5,090	-
Intercompany payable	105,795	8,168
Total Liabilities	607,609	110,478
Net Assets		
Without donor restrictions		
Designated	284,969	251,130
Unrestricted	1,497,038	1,644,202
Total Net Assets	1,782,007	1,895,332
Total Liabilities and Net Assets	$ 2,389,616	$ 2,005,810

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 2,519,073	$ 1,927,351
Federal revenue	136,309	218,909
State revenue	239,173	481,588
Local revenue	13,837	124,580
Total Revenues	2,908,392	2,752,428
Expenses		
Program services	2,130,052	1,550,450
Management and general	891,665	682,203
Total Expenses	3,021,717	2,232,653
Change in Net Assets	(113,325)	519,775
Net Assets, Beginning of Year	1,895,332	1,375,557
Net Assets, End of Year	$ 1,782,007	$ 1,895,332

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (113,325)	$ 519,775
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	17,579	11,392
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(179,448)	68,516
Decrease in intercompany receivable	21,566	129,588
Decrease in prepaid expenses	11,698	110,151
Increase (Decrease) in accounts payable	394,414	(10,729)
Increase (Decrease) in intercompany payable	97,627	(26,568)
Increase in deferred revenue	5,090	-
Net Cash Provided by Operating Activities	255,201	802,125
Cash Flows From Investing Activities		
Capital expenditures	-	(70,977)
Net Increase in Cash	255,201	731,148
Cash, Beginning of Year	1,731,955	1,000,807
Cash, End of Year	$ 1,987,156	$ 1,731,955
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 1,212,578	$ 236,315	$ 1,448,893
Employee benefits	204,627	-	204,627
Payroll taxes	338,986	78,588	417,574
Total Personnel	1,756,191	314,903	2,071,094
Operating			
Fees for services	-	102,636	102,636
Advertising and promotions	-	9,086	9,086
Office expenses	35,826	11,351	47,177
Information technology	5,940	-	5,940
Occupancy	-	215,762	215,762
Travel	-	361	361
Conferences and meeting	-	939	939
Depreciation	17,579	-	17,579
Insurance	-	6,431	6,431
Other expenses	49,518	43,089	92,607
Capital outlay	57,635	-	57,635
Special Education Local Plan Area fees	45,716	-	45,716
Instructional materials	36,983	-	36,983
Nutrition	99,577	-	99,577
District oversight fees	25,087	-	25,087
Management fees	-	187,107	187,107
Total Operating	373,861	576,762	950,623
Total Functional Expenses	$ 2,130,052	$ 891,665	$ 3,021,717

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

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (MSA 5), formerly located in Hollywood, now located in Reseda, California provides sixth through ninth grade education to approximately 248 students. MSA 5 was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. During 2018, MSA 5 was approved for a five year period ending June 30, 2023 under Los Angeles County Office of Education. MSA 5 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 5 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 5's Charter School Management Organization (CMO) that manages MSA 5's nonacademic operation such as financial, general administration, and human resource management. MSA 5's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

MSA 5 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

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

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between MSA 5.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 5 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

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

MSA 5 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

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

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

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

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 5 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, MSA 5 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 5 are derived principally from state and federal sources. MSA 5 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. MSA 5 receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

MSA 5 is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

MSA 5 has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for MSA 5 for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, MSA 5 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from MSA 5's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess MSA 5's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. MSA 5 has elected not to present comparative information for these amendments.

MSA 5 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 5 's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, MSA 5 adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the MSA 5's June 30, 2018 net assets.

The effect on the MSA 5's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 1,375,557	$ (1,375,557)	$ -
Net assets without donor restrictions		1,375,557	1,375,557
Net assets, end of the year			
Unrestricted	$ 1,895,332	$ (1,895,332)	$ -
Net assets without donor restrictions	-	1,895,332	1,895,332

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - CASH

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

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 1,987,156	$ 2,010,281	$ 1,731,955	$ 1,827,198

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 5 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 5 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 5 had a balance of $1,982,236 and $1,797,783, respectively, in excess of FDIC insured limits. Management believes MSA 5 is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 1,987,156	$ 1,731,955
Accounts receivable	337,071	157,623
Prepaid expenses and other assets	-	11,698
Intercompany receivables	1,026	22,592
Financial Assets, at year end	2,325,253	1,923,868
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(284,969)	(251,130)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,040,284	$ 1,672,738

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 222,665	$ 80,927
Federal receivables	30,862	33,944
State receivables	70,086	21,005
Lottery	12,262	21,747
Local receivables	1,196	-
	$ 337,071	$ 157,623

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 5 had an intercompany receivable balance of $1,026 and $22,592, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ -	$ 11,698

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Computers and equipment	$ 191,682	$ 191,682
Work in progress	13,836	13,836
Subtotal	205,518	205,518
Less: accumulated depreciation	(141,155)	(123,576)
Total property and equipment	$ 64,363	$ 81,942

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 85,662	$ 40,053
Vendor payable	411,062	58,713
Due to other agencies	-	3,544
	$ 496,724	$ 102,310

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 5 had an intercompany payable balance of $105,795 and $8,168, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 5 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 5 education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was $210,006 and $119,195, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 5 is part of the Foundation. MSA 5 pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, were $187,107 and $82,190, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 284,969	$ 251,130
Unrestricted	1,497,038	1,644,202
Total Net Assets without Donor Restrictions	$ 1,782,007	$ 1,895,332

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 5 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 5 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

<u>California State Teachers' Retirement System (CalSTRS)</u>

Plan Description

MSA 5 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 5 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 5's total contributions were $185,900 and $127,705, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 5 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $42,947 and $18,940, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $135,445 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $11,765 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CasSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 5 is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 5 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 5 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 5 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 5 made payments of $16,296 and $20,163, respectively, to CharterSAFE for services received June 30, 2019 and 2018, respectively, MSA 5 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - CONTINGENCIES

Grants

MSA 5 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 5 is not currently a party to any legal proceedings.

NOTE 16 - SUBSEQUENT EVENTS

MSA 5's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy (Charter Number 0987) was granted on January 23, 2018, by the Los Angeles County Office of Education for a five year period ending June 30, 2023. MSA 5 has been approved for grades six through eight and operated one school, grades six through nine.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

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

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	57.34	57.18
Seventh and eighth	106.37	106.37
Ninth through twelfth	68.20	67.92
Total Regular ADA	231.91	231.47
Classroom based ADA		
Fourth through sixth	57.34	57.18
Seventh and eighth	106.37	106.37
Ninth through twelfth	68.20	67.92
Total Classroom based ADA	231.91	231.47

MSA 5 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

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

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	63,070	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		63,070	181	N/A	Complied
Grade 8		63,070	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,975	181	N/A	Complied
Grade 10		64,975	181	N/A	Complied
Grade 11		64,975	181	N/A	Complied
Grade 12		64,975	181	N/A	Complied

See accompanying note to supplementary information.

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

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 2,037,605
Increase in:	
Accounts receivable	87,574
Intercompany receivable	1,026
(Increase) in:	
Accounts payable	(233,313)
Deferred revenue	(5,090)
Intercompany payable	(105,795)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,782,007

See accompanying note to supplementary information.

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 5. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 5 and whether MSA 5 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 5 (MSA 5) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ___________, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 5's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 5's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 5's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 5's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 5's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 5's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy 5's (MSA 5) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 5's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 5's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 5's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 5's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 5 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 5's compliance with the State laws and regulations applicable to the following items:

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

MSA 5 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 5 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 5 does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA 5 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

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

None reported.

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

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

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 6 (MSA 6) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 6's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 6's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 6, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated _______________, 2019, on our consideration of MSA 6's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 6's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 6's internal control over financial reporting and compliance.

Rancho Cucamonga, California
________________, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,719,960	$ 1,442,531
Accounts receivable	256,078	162,484
Intercompany receivable	8,002	2,500
Prepaid expenses and other current assets	9,714	14,884
Total Current Assets	1,993,754	1,622,399
Non-Current Assets		
Property and equipment	158,971	158,971
Less: accumulated depreciation	(148,877)	(130,981)
Total Non-Current Assets	10,094	27,990
Total Assets	$ 2,003,848	$ 1,650,389
Liabilities		
Current Liabilities		
Accounts payable	$ 175,226	$ 46,433
Deferred revenue	12,223	-
Intercompany payable	2,110	58
Total Current Liabilities	189,559	46,491
Net Assets		
Without donor restrictions		
Designated	217,955	112,184
Unrestricted	1,596,334	1,491,714
Total Net Assets	1,814,289	1,603,898
Total Liabilities and Net Assets	$ 2,003,848	$ 1,650,389

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 1,496,543	$ 1,449,785
Federal revenue	98,528	143,028
State revenue	321,358	374,247
Local revenue	5,441	52,349
Total Revenues	1,921,870	2,019,409
Expenses		
Program services	1,242,399	1,064,560
Management and general	469,080	609,872
Total Expenses	1,711,479	1,674,432
Change in Net Assets	210,391	344,977
Net Assets, Beginning of Year	1,603,898	1,258,921
Net Assets, End of Year	$ 1,814,289	$ 1,603,898

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ 210,391	$ 344,977
Adjustments to reconcile change in net assets to net cash Provided by operating activities		
Depreciation expense	17,896	28,726
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(93,594)	5,618
Decrease in intercompany receivable	(5,502)	447,500
Decrease in prepaid expenses	5,170	2,682
Increase (Decrease) in accounts payable	128,793	(109,714)
Increase (Decrease) in intercompany payable	2,052	(26,334)
Increase in deferred revenue	12,223	-
Net Cash Provided by Operating Activities	277,429	693,455
Cash Flows From Investing Activities		
Capital expenditures	-	(4,983)
Net Increase in Cash	277,429	688,472
Cash, Beginning of Year	1,442,531	754,059
Cash, End of Year	$ 1,719,960	$ 1,442,531
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 721,480	$ 110,312	$ 831,792
Employee benefits	123,119	-	123,119
Payroll taxes	222,308	33,263	255,571
Total Personnel	1,066,907	143,575	1,210,482
Operating			
Fees for services	-	81,532	81,532
Advertising and promotions	-	18,698	18,698
Office expenses	31,104	4,513	35,617
Information technology	5,698	-	5,698
Occupancy	-	130,840	130,840
Travel	-	2,083	2,083
Depreciation	17,896	-	17,896
Insurance	-	6,215	6,215
Other expenses	11,019	37,966	48,985
Capital outlay	16,611	-	16,611
Special Education Local Plan Area fees	54,633	-	54,633
Instructional materials	22,410	-	22,410
Nutrition	1,554	-	1,554
District oversight fees	14,567	-	14,567
Management fees	-	43,658	43,658
Total Operating	175,492	325,505	500,997
Total Functional Expenses	$ 1,242,399	$ 469,080	$ 1,711,479

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy-6 (MSA 6) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 156 students. The School was created under the approval of the Los Angeles Unified School District (ending June 30, 2019) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 6 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 6's Charter School Management Organization (CMO) that manages MSA 6′s nonacademic operation such as financial, general administration, and human resource management. MSA 6′s financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the MSA 6’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The MSA 6 considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

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

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the MSA 6.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. MSA 6 has reported prepaid items either when purchased or during the benefiting period.

Fixed Assets

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

MSA 6 reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

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

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

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

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. MSA 6 reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, MSA 6 has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for MSA 6 are derived principally from state and federal sources. MSA 6 receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

MSA 6 is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, MSA 6 is not aware of any such actions at this time.

MSA 6 has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires MSA 6 to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

As of July 1, 2019, MSA 6 adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for MSA 6's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from MSA 6's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess MSA 6's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. MSA 6 has elected not to present comparative information for these amendments.

MSA 6 has adopted this standard as management believes the standard improves the usefulness and understandability of the MSA 6's financial reporting.

Adjustments Resulting from Change in Accounting Policy

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

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 1,258,921	$ (1,258,921)	$ -
Net assets without donor restrictions		1,258,921	1,258,921
Net assets, end of the year			
Unrestricted	$ 1,603,898	$ (1,603,898)	$ -
Net assets without donor restrictions	-	1,603,898	1,603,898

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 1,719,960	$ 1,736,607	$ 1,442,531	$ 1,496,957

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 6 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 6 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 6 had $1,712,380 and $1,472,859, respectively, in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 1,719,960	$ 1,442,531
Accounts receivable	256,078	162,484
Prepaid expenses and other assets	9,714	14,884
Intercompany receivables	8,002	2,500
Financial Assets, at year end	1,993,754	1,622,399
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(217,955)	(112,184)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,775,799	$ 1,510,215

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 201,027	$ 36,937
Federal receivables	6,962	37,474
State receivables	27,248	74,645
Lottery	19,743	13,428
Local receivables	1,098	-
	$ 256,078	$ 162,484

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 6 had an intercompany receivable balance of $8,002 and $2,500, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 9,714	$ 14,884

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Computers and equipment	$ 148,877	$ 148,877
Work in progress	10,094	10,094
Subtotal	158,971	158,971
Less: accumulated depreciation	(148,877)	(130,981)
Total property and equipment	$ 10,094	$ 27,990

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

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

	2019	2018
Salaries and benefits	$ 38,181	$ 37,359
Vendor payable	137,045	5,646
Due to other agencies	-	3,428
	$ 175,226	$ 46,433

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 6 had an intercompany payable balance of $2,110 and $58, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 10 – FACILITIES USE AGREEMENT

Magnolia Science Academy 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms on August 1, 2015, for the property located at 3754 Dunn Drive, Los Angeles, California for the sole purpose of operating MSA 6 educational programs and related Charter School activities. Lease payments during 2019 and 2018, were $114,000 and $114,000, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 6 is part of the Foundation. MSA 6 pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, was $43,658 and $82,190, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 217,955	$ 112,184
Unrestricted	1,596,334	1,491,714
Total Net Assets without Donor Restrictions	$ 1,814,289	$ 1,603,898

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 6 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 6 has no plans to withdraw from this multi-employer plan.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 6 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 6 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 6's total contributions were $145,276 and $96,199, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2017. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 6 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $17,784 and $15,954, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $103,065 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $7,040 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA 6 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA 6 is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 6 is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers′ compensation and charter school liability insurance. The relationship between MSA 6 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 6 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE′s financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 6 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 6 made payments of $15,023 and $19,055, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 6 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA 6's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ___________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 6 (Charter Number 0988) was granted on May 8, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 6 operates one school, grades six through eight.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	52.51	52.89
Seventh and eighth	96.58	97.12
Total Regular ADA	149.09	150.01
Classroom based ADA		
Fourth through sixth	52.51	52.89
Seventh and eighth	96.58	97.12
Total Classroom based ADA	149.09	150.01

MSA 6 did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	60,844	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		60,844	181	N/A	Complied
Grade 8		60,844	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 1,908,859
Increase in:	
Accounts receivable	29,894
Intercompany receivable	8,002
Prepaid expenses and other current assets	1,993
(Increase) in:	
Accounts payable	(120,126)
Deferred revenue	(12,223)
Intercompany payable	(2,110)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,814,289

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 6. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 6 and whether MSA 6 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 6 (MSA 6) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ____________, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 6's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 6's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 6's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 6's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 6's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 6's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 6's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Magnolia Science Academy 6's (MSA 6) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 6's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 6's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 6's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 6's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 6 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 6's compliance with the State laws and regulations applicable to the following items:

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	Yes

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

MSA 6 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 6 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 6 does not offer Non classroom-Based Instruction; therefore, we did not perform any procedures related to Non classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non classroom-Based Instruction.

Rancho Cucamonga, California
________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 7 (MSA 7) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MSA 7's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSA 7's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 7, as of June 30, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2019, on our consideration of MSA 7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 7's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 7's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_______________, 2019

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 1,314,944	$ 1,269,979
Accounts receivable	409,828	318,241
Prepaid expenses and other current assets	23,786	22,337
Total Current Assets	1,748,558	1,610,557
Non-Current Assets		
Security deposit	-	7,227
Property and equipment	290,998	290,998
Less: accumulated depreciation	(122,900)	(122,900)
Total Non-Current Assets	168,098	175,325
Total Assets	$ 1,916,656	$ 1,785,882
Liabilities		
Current Liabilities		
Accounts payable	$ 359,410	$ 277,107
Deferred revenue	1,859	-
Intercompany payable	12,746	10,579
Total Current Liabilities	374,015	287,686
Net Assets		
Without donor restrictions		
Designated	9,783	254,562
Unrestricted	1,532,858	1,243,634
Total Net Assets	1,542,641	1,498,196
Total Liabilities and Net Assets	$ 1,916,656	$ 1,785,882

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 2,764,875	$ 2,565,977
Federal revenue	314,706	241,181
State revenue	796,108	945,358
Local revenue	56,165	98,633
Total Revenues	3,931,854	3,851,149
Expenses		
Program services	2,246,312	1,758,757
Management and general	1,641,097	1,606,526
Total Expenses	3,887,409	3,365,283
Change in Net Assets	44,445	485,866
Net Assets, Beginning of Year	1,498,196	1,012,330
Net Assets, End of Year	$ 1,542,641	$ 1,498,196

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

		2019		2018
Cash Flows From Operating Activities				
Change in net assets	$	44,445	$	485,866
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation expense		-		18,515
Changes in operating assets and liabilities				
(Increase) in accounts receivable		(91,587)		(46,843)
(Increase) Decrease in prepaid expenses		(1,449)		113,146
Increase (Decrease) in security deposits		7,227		(3,227)
Increase in accounts payable		82,303		167,876
(Decrease) in intercompany payable		2,167		(140,470)
Increase in deferred revenue		1,859		-
Net Cash Provided by Operating Activities		44,965		594,863
Cash Flows From Investing Activities				
Capital expenditures		-		(155,024)
Net Increase in Cash		44,965		439,839
Cash, Beginning of Year		1,269,979		830,140
Cash, End of Year	$	1,314,944	$	1,269,979
Supplemental cash flow disclosure				
Cash paid during the period for interest	$	-	$	-

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 1,149,969	$ 346,488	$ 1,496,457
Employee benefits	257,866	-	257,866
Payroll taxes	346,711	93,345	440,056
Total Personnel	1,754,546	439,833	2,194,379
Operating			
Fees for services	-	265,192	265,192
Advertising and promotions	-	3,942	3,942
Office expenses	24,192	9,874	34,066
Information technology	7,419	-	7,419
Occupancy	-	361,038	361,038
Travel	-	2,513	2,513
Insurance	-	20,399	20,399
Other expenses	190,473	39,354	229,827
Capital outlay	80,004	-	80,004
Special Education Local Plan Area fees	107,729	-	107,729
Instructional materials	49,220	-	49,220
Nutrition	5,110	-	5,110
District oversight fees	27,619	-	27,619
Management fees	-	498,952	498,952
Total Operating	491,766	1,201,264	1,693,030
Total Functional Expenses	$ 2,246,312	$ 1,641,097	$ 3,887,409

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (MSA 7) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 291 students. MSA 7 was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles Unified School District approved the charter on February 26, 2008, and renewed the charter agreement in 2014 for a period of five years ending in 2019. MSA 7 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 7 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 7's Charter School Management Organization (CMO) that manages MSA 7's nonacademic operation such as financial, general administration, and human resource management. MSA 7's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Intercompany Receivable/Payable

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

Prepaid Expenses/Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

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

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

Net Assets

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

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

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

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

Revenue and Revenue Recognition

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

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

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

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

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

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 1,012,330	$ (1,012,330)	$ -
Net assets without donor restrictions		1,012,330	1,012,330
Net assets, end of the year			
Unrestricted	$ 1,498,196	$ (1,498,196)	$ -
Net assets without donor restrictions	-	1,498,196	1,498,196

NOTE 2 - CASH AND CASH EQUIVALENTS

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 1,314,944	$ 1,348,805	$ 1,269,979	$ 1,327,872

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 7 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 7 has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA 7 had a balance of $1,329,988 and $1,306,496, respectively, in excess of FDIC insured limits. Management believes MSA 7 is not exposed to any significant risk related to cash.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 1,314,944	$ 1,269,979
Accounts receivable	409,828	318,241
Prepaid expenses and other assets	23,786	22,337
Financial Assets, at year end	1,748,558	1,610,557
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(9,783)	(254,562)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,738,775	$ 1,355,995

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 227,209	$ 88,402
Federal receivables	2,076	52,117
State receivables	162,174	151,786
Lottery	16,845	25,719
Local receivables	1,524	217
	$ 409,828	$ 318,241

NOTE 5 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 23,786	$ 22,337

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 6 – PROPERTY AND EQUIPMENT

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

	2019	2018
Building improvements	$ 27,904	$ 27,904
Computers and equipment	94,996	94,996
Work in progress	168,098	168,098
Subtotal	290,998	290,998
Less: accumulated depreciation	(122,900)	(122,900)
Total property and equipment	$ 168,098	$ 168,098

NOTE 7 - ACCOUNTS PAYABLE

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

	2019	2018
Salaries and benefits	$ 100,517	$ 80,072
Vendor payable	258,893	185,047
Due to other agencies	-	11,988
	$ 359,410	$ 277,107

NOTE 8 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 7 and reimbursement for those resources from MSA 7 to the Foundation, and cash transfers for cash flow purposes. MSA 7 and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA 7 had an intercompany payable balance of $12,746 and $10,579, respectively, from the Foundation.

NOTE 9 – FACILITIES USE AGREEMENT

Magnolia Science Academy 7 entered into a lease extension agreement with First Lutheran Church of Northridge on June 20, 2017, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating MSA 7 educational programs and related Charter School activities and include rental fees that shall be paid on the first of every month. Monthly payments in the amount of $20, 867 shall be made beginning in fiscal year 2017-2018 and increase 3 percent annually. The term of the lease expired on August 1, 2022. Lease payments during 2019 and 2018, were $280,236 and $271,754, respectively.

NOTE 10 - RELATED PARTY TRANSACTIONS

MSA 7 is part of the Foundation. MSA 7 pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, were $498,952 and $547,935, respectively.

NOTE 11 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 9,783	$ 254,562
Unrestricted	1,532,858	1,243,634
Total Net Assets without Donor Restrictions	$ 1,542,641	$ 1,498,196

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA 7 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 7 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA 7 contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA 7 contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, 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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA 7's total contributions were $172,932 and $140,104, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA 7 is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $53,215 and $32,737, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $157,259 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $14,446 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CasSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 7 are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 7 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 7 for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA 7 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA 7 made payments of $34,775 and $31,480, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA 7 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - CONTINGENCIES

Grants

MSA 7 has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

Magnolia Science Academy 7 is not currently a party to any legal proceedings.

NOTE 15 - SUBSEQUENT EVENTS

MSA 7's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy 7 (Charter Number 0989) was granted on February 26, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 7 operates one school, grades kindergarten through five.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7

(A California Nonprofit Public Benefit Corporation)

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	193.56	193.47
Fourth through sixth	80.41	80.21
Total Regular ADA	273.97	273.68
Classroom based ADA		
Transitional kindergarten through third	193.56	193.47
Fourth through sixth	80.41	80.21
Total Classroom based ADA	273.97	273.68

MSA 7 did not operate a non-classroom based Instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

	1986-87	2018-19	Number of Days		
Grade Level	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	Status
Kindergarten	36,000	57,125	176	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		57,125	176	N/A	Complied
Grade 2		57,125	176	N/A	Complied
Grade 3		57,125	176	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		57,125	176	N/A	Complied
Grade 5		57,125	176	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 1,395,457
Increase in:	
Accounts receivable	30,395
(Increase) Decrease in:	
Accounts payable	131,394
Deferred revenue	(1,859)
Intercompany payable	(12,746)
Net Assets, June 30, 2019, Audited Financial Statement	$ 1,542,641

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA 7. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 7 and whether MSA 7 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

MSA 7 must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 7 (MSA 7) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ___________, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 7's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA 7's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 7's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA 7's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA 7's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA 7's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA 7's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

Report on State Compliance

We have audited Magnolia Science Academy 7's (MSA 7) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA 7's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA 7's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA 7's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA 7's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 7 complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 7's compliance with the State laws and regulations applicable to the following items:

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes classroom-Based	Yes
Charter School Facility Grant Program	Yes

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

MSA 7 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 7 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 7 does not offer Non classroom-Based Instruction; therefore, we did not perform any procedures related to Non classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non classroom-Based Instruction.

Rancho Cucamonga, California
_________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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

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

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

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

Rancho Cucamonga, California
______________, 2019

FINANCIAL STATEMENTS

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

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 2,529,656	$ 1,907,434
Accounts receivable	536,075	385,404
Intercompany receivable	1,811,055	1,722,916
Prepaid expenses and other current assets	233	79,980
Total Current Assets	4,877,019	4,095,734
Non-Current Assets		
Property and equipment	353,397	320,329
Less: accumulated depreciation	(253,100)	(187,190)
Total Non-Current Assets	100,297	133,139
Total Assets	$ 4,977,316	$ 4,228,873
Liabilities		
Current Liabilities		
Accounts payable	$ 721,283	$ 144,722
Deferred revenue	20,038	-
Intercompany payable	434	434
Total Current Liabilities	741,755	145,156
Net Assets		
Without donor restrictions		
Designated	-	272,911
Unrestricted	4,235,561	3,810,806
Total Net Assets	4,235,561	4,083,717
Total Liabilities and Net Assets	$ 4,977,316	$ 4,228,873

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 4,646,128	$ 4,538,699
Federal revenue	334,005	342,604
State revenue	750,585	980,866
Local revenue	31,869	74,954
Total Revenues	5,762,587	5,937,123
Expenses		
Program services	3,331,289	2,815,881
Management and general	2,279,454	2,403,924
Total Expenses	5,610,743	5,219,805
Change in Net Assets	151,844	717,318
Net Assets, Beginning of Year	4,083,717	3,366,399
Net Assets, End of Year	$ 4,235,561	$ 4,083,717

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ 151,844	$ 717,318
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	65,910	57,572
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(150,671)	(533)
(Increase) Decrease in intercompany receivable	(88,139)	350,391
(Increase) Decrease in prepaid expenses	79,747	(59,534)
Increase (Decrease) in accounts payable	576,561	(63,838)
(Decrease) in intercompany payable	-	(12,754)
Increase in deferred revenue	20,038	-
Net Cash Provided by Operating Activities	655,290	988,622
Cash Flows From Investing Activities		
Capital expenditures	(33,068)	(7,027)
Net Increase in Cash	622,222	981,595
Cash, Beginning of Year	1,907,434	925,839
Cash, End of Year	$ 2,529,656	$ 1,907,434
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

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

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

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 1,847,602	$ 519,107	$ 2,366,709
Employee benefits	341,043	-	341,043
Payroll taxes	545,278	139,224	684,502
Total Personnel	2,733,923	658,331	3,392,254
Operating			
Fees for services	-	155,513	155,513
Advertising and promotions	-	5,054	5,054
Office expenses	39,172	7,653	46,825
Information technology	26,010	-	26,010
Occupancy	-	380,725	380,725
Conferences and meeting	-	1,536	1,536
Depreciation	65,910	-	65,910
Insurance	-	23,483	23,483
Other expenses	33,098	70,050	103,148
Capital outlay	75,113	-	75,113
Special Education Local Plan Area fees	113,366	-	113,366
Instructional materials	69,118	-	69,118
Nutrition	128,558	-	128,558
District oversight fees	47,021	-	47,021
Management fees	-	977,109	977,109
Total Operating	597,366	1,621,123	2,218,489
Total Functional Expenses	$ 3,331,289	$ 2,279,454	$ 5,610,743

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

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy Bell

Charter school number authorized by the State: 1236

Magnolia Science Academy-8 (MSA Bell) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 471 students. MSA Bell was created under the approval of the Los Angeles Unified School District (ending June 30, 2020) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Bell is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Intercompany Receivable/Payable

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

Prepaid Expenses

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

Fixed Assets

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

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

Net Assets

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

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:
>
> > Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

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

Revenue and Revenue Recognition

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

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

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

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

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

Adjustments Resulting from Change in Accounting Policy

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

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 3,366,399	$ (3,366,399)	$ -
Net assets without donor restrictions		3,366,399	3,366,399
Net assets, end of the year			
Unrestricted	$ 4,083,717	$ (4,083,717)	$ -
Net assets without donor restrictions	-	4,083,717	4,083,717

NOTE 2 - CASH

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 2,529,656	$ 2,682,353	$ 1,907,434	$ 2,174,208

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Bell maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Bell has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA Bell had a balance of $2,644,931 and $2,139,207, respectively, in excess of FDIC insured limits. Management believes MSA Bell is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 2,529,656	$ 1,907,434
Accounts receivable	536,075	385,404
Prepaid expenses and other assets	233	79,980
Intercompany receivables	1,811,055	1,722,916
Financial Assets, at year end	4,877,019	4,095,734
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	-	(272,911)
Financial assets available to meet cash needs for general expenditures within one year	$ 4,877,019	$ 3,822,823

NOTE 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ 348,166	$ 199,840
Federal receivables	46,929	122,396
State receivables	110,436	17,928
Lottery	29,345	45,240
Local receivables	1,199	-
	$ 536,075	$ 385,404

NOTE 5 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA Bell had an intercompany receivable balance of $1,811,055 and $1,722,916, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, are as follows:

	2019	2018
Insurance and miscellaneous vendors	$ 233	$ 79,980

NOTE 7 – PROPERTY AND EQUIPMENT

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

	2019	2018
Computers and equipment	$ 340,633	$ 307,565
Work in progress	12,764	12,764
Subtotal	353,397	320,329
Less: accumulated depreciation	(253,100)	(187,190)
Total property and equipment	$ 100,297	$ 133,139

NOTE 8 - ACCOUNTS PAYABLE

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

	2019	2018
Salaries and benefits	$ 189,899	$ 98,996
Vendor payable	531,384	45,726
	$ 721,283	$ 144,722

NOTE 9 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA Bell had an intercompany payable balance of $434 and $434, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy Bell renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA Bell education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019 and 2018, was $343,535 and $318,111, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA Bell is part of the Foundation. MSA Bell pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, were $977,109 and $1,095,870, respectively.

NOTE 12 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ -	$ 272,911
Unrestricted	4,235,561	3,810,806
Total Net Assets without Donor Restrictions	$ 4,235,561	$ 4,083,717

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

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

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA Bell contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA Bell contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA Bell's total contributions were $265,648 and $232,680, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Schools Pool Actuarial Valuation,. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA Bell is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $47,279 and $44,743, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $254,065 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $19,736 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 14 - CONTINGENCIES

Grants

MSA Bell has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA Bell is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

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

The CharterSAFE has budgeting and financial reporting requirements independent of member units and the CharterSAFE's financial statements are not presented in these financial statements; however, transactions between the CharterSAFE and MSA Bell are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA Bell made payments of $47,279 and $50,548, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA Bell had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

MSA Bell's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District and extended for a five year period ending June 30, 2020. MSA Bell operates one school, grades six through twelve.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

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

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	122.81	131.91
Seventh and eighth	327.30	340.97
Total Regular ADA	450.11	472.88
Classroom based ADA		
Fourth through sixth	122.81	131.91
Seventh and eighth	327.30	340.97
Total Classroom based ADA	450.11	472.88

MSA Bell did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

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

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

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	62,625	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		62,625	181	N/A	Complied
Grade 8		62,625	181	N/A	Complied

See accompanying note to supplementary information.

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

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 4,437,930
Increase (Decrease) in:	
Accounts receivable	(1,652,552)
Intercompany receivable	1,811,055
(Increase) in:	
Accounts payable	(340,400)
Deferred revenue	(20,038)
Intercompany payable	(434)
Net Assets, June 30, 2019, Audited Financial Statement	$ 4,235,561

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Bell (MSA Bell) which comprise the statement of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ______________, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Bell's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Bell's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy Bell's (MSA Bell) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA Bell's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA Bell's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA Bell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA Bell's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Bell complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive Schools Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

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

MSA Bell does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA Bell did not offer Non classroom-Based instruction; therefore, we did not perform any procedures related to Non classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non classroom-Based Instruction.

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

Rancho Cucamonga, California
________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

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

None reported.

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

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

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

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

Rancho Cucamonga, California
_______________, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 882,408	$ 708,858
Accounts receivable	217,899	1,017,487
Intercompany receivable	618,358	34,430
Prepaid expenses and other current assets	635	866
Total Current Assets	1,719,300	1,761,641
Non-Current Assets		
Investments in LLC	75,554	75,554
Security deposit	-	19,890
Property and equipment	22,622,538	22,622,538
Less: accumulated depreciation	(1,651,959)	(1,091,112)
Total Non-Current Assets	21,046,133	21,626,870
Total Assets	$ 22,765,433	$ 23,388,511
Liabilities		
Current Liabilities		
Accounts payable	$ 413,797	$ 951,469
Deferred revenue	664	-
Intercompany payable	2,375,621	2,181,887
Current portion of note payable	94,583	82,500
Current portion of long-term obligation	228,013	223,520
Total Current Liabilities	3,112,678	3,439,376
Long-Term Obligations		
Non-current portion of note payable	4,086,805	4,182,500
Non-current portion of long-term obligation	8,037,440	8,264,342
Total Liabilities	15,236,923	15,886,218
Net Assets		
Without donor restrictions		
Designated	272,871	14,716
Unrestricted	7,255,639	7,487,577
Total Net Assets	7,528,510	7,502,293
Total Liabilities and Net Assets	$ 22,765,433	$ 23,388,511

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 6,767,105	$ 6,682,934
Federal revenue	415,188	629,550
State revenue	981,462	841,029
Local revenue	74,339	173,872
Total Revenues	8,238,094	8,327,385
Expenses		
Program services	5,241,451	4,984,004
Management and general	2,970,426	3,718,100
Total Expenses	8,211,877	8,702,104
Change in Net Assets	26,217	(374,719)
Net Assets, Beginning of Year	7,502,293	7,877,012
Net Assets, End of Year	$ 7,528,510	$ 7,502,293

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ 26,217	$ (374,719)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	560,847	527,830
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	799,588	(869,683)
(Increase) in intercompany receivable	(583,928)	(19,014)
Decrease in prepaid expenses	231	28,083
(Decrease) in security deposits	-	(200)
Increase in accounts payable	(537,672)	263,063
(Decrease) in intercompany payable	193,734	(78,803)
Increase in deferred revenue	664	-
Net Cash Provided (Used) by Operating Activities	459,681	(523,443)
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(75,554)
Restricted cash used for construction	-	95,590
Capital expenditures	-	(4,289,527)
Net Cash Used by Investing Activities	-	(4,269,491)
Cash Flows From Financing Activities		
Loan proceeds	-	4,264,988
Loan payment	(286,131)	(244,116)
Net Cash Used by Financing Activities	(286,131)	4,020,872
Net Decrease in Cash	173,550	(772,062)
Cash, Beginning of Year	708,858	1,480,920
Cash, End of Year	$ 882,408	$ 708,858
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ 593,520	$ 446,990

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 2,843,530	$ 791,138	$ 3,634,668
Employee benefits	539,291	-	539,291
Payroll taxes	589,916	206,894	796,810
Total Personnel	3,972,737	998,032	4,970,769
Operating			
Fees for services	-	152,402	152,402
Advertising and promotions	-	20,111	20,111
Office expenses	42,272	7,429	49,701
Information technology	11,452	-	11,452
Occupancy	-	160,658	160,658
Travel	-	1,079	1,079
Conferences and meeting	-	315	315
Interest	-	593,520	593,520
Depreciation	560,847	-	560,847
Insurance	-	29,826	29,826
Other expenses	79,803	9,150	88,953
Capital outlay	123,168	-	123,168
Special Education Local Plan Area fees	225,199	-	225,199
Instructional materials	87,941	-	87,941
Nutrition	601	-	601
District oversight fees	137,431	-	137,431
Management fees	-	997,904	997,904
Total Operating	1,268,714	1,972,394	3,241,108
Total Functional Expenses	$ 5,241,451	$ 2,970,426	$ 8,211,877

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

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 0943

Magnolia Science Academy Santa Ana (MSA Santa Ana) (Formerly Pacific Technology School Santa Ana) is a charter school located in Santa Ana, California that provides transitional kindergarten through twelfth grade education to approximately 674 students. MSA Santa Ana was created under the approval the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

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

MPM Santa Ana, LLC

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

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

Receivables and Credit Policies

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

Intercompany Receivable/Payable

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

Prepaid Expenses/Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

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

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

Net Assets

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

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

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

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

Revenue and Revenue Recognition

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

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

Donated Services and In-Kind Contributions

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

Functional Allocation of Expenses

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

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

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

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

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

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

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

Change in Accounting Policy

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

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

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

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets.

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

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 7,877,012	$ (7,877,012)	$ -
Net assets without donor restrictions		7,877,012	7,877,012
Net assets, end of the year			
Unrestricted	$ 7,502,293	$ (7,502,293)	$ -
Net assets without donor restrictions	-	7,502,293	7,502,293

NOTE 2 - CASH AND CASH EQUIVALENTS

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

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 290,929	$ 324,201	$ 266,617	$ 1,262,083
Cash with Orange County Investment Pool	591,479	N/A	442,241	N/A
	$ 882,408	$ 324,201	$ 708,858	$ 1,262,083

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Santa Ana maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Santa Ana has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA Santa Ana had a balance of $319,678 and $419,062, respectively, in excess of FDIC insured limits. Management believes MSA Santa Ana is not exposed to any significant risk related to cash.

NOTE 3 – LIQUIDITY AND AVAILABILITY

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

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 882,408	$ 708,858
Accounts receivable	217,899	1,017,487
Prepaid expenses and other assets	635	866
Intercompany receivables	618,358	34,430
Financial Assets, at year end	1,719,300	1,761,641
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(272,871)	(14,716)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,446,429	$ 1,746,925

NOTE 4 - INVESTMENTS

Summary of Investments

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

Investment Type	2019 Reported Amount	2018 Reported Amount
Orange County Pooled Investment Funds	$ 591,479	$ 266,617

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

Interest Rate Risk

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

Weighted Average Maturity

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

	2019		2018	
Investment Type	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled Investment Funds	$ 591,479	310	$ 266,617	302

NOTE 5 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

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

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

	2019		2018	
Investment Type	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
Orange County Pooled Investment Funds	$ 591,479	$ 591,479	$ 266,617	$ 266,617

NOTE 6 - ACCOUNTS RECEIVABLE

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

	2019	2018
Local Control Funding Formula	$ -	$ 755,157
Federal receivables	105,025	141,485
State receivables	64,093	57,467
Lottery	-	63,378
Local receivables	48,781	-
	$ 217,899	$ 1,017,487

NOTE 7 - INTERCOMPANY RECEIVABLE

The June 30, 2019, intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA Santa Ana had an intercompany receivable balance of $618,358 and $34,430, respectively, from the Foundation.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

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

	2019	2018
Insurance and miscellaneous vendors	$ 635	$ 866

NOTE 9 – PROPERTY AND EQUIPMENT

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

	2019	2018
Building improvements	$ 22,157,822	$ 22,157,822
Computers and equipment	269,645	269,645
Work in progress	195,071	195,071
Subtotal	22,622,538	22,622,538
Less: accumulated depreciation	(1,651,959)	(1,091,112)
Total property and equipment	$ 20,970,579	$ 21,531,426

NOTE 10 - ACCOUNTS PAYABLE

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

	2019	2018
Salaries and benefits	$ 237,954	$ 138,917
Vendor payable	175,843	812,552
	$ 413,797	$ 951,469

NOTE 11 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA Santa Ana had an intercompany payable balance of $2,375,621 and $2,181,887 from the Foundation.

NOTE 12 – LONG TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

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

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA Santa Ana by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a 3.10 Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage		
Net Income	$	26,217
Depreciation		560,847
Rent		516,500
Management fees (50%)		498,952
Income Available for Coverage		1,602,516
Debt Service		516,500
Debt Service Coverage		**3.10**
Limit		1.10
Compliance		Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA Santa Ana had 120 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand		
Total Expenses	$	3,241,108
Depreciation		560,847
Cash Expenses		2,680,261
Expense/Day		7,343
Cash		882,408
Days Cash on Hand		**120**
Limit		45
Compliance		Yes

Charter School Facilities Program

MSA Santa Ana has been approved by the State of California's Charter School Facilities Program for $17,413,956 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of $17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of $8,706,978 and the other 50 percent through a grant in the amount of $8,706,978. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2019, was $8,265,453.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	(2,519,103)
Total	$ 8,265,453

NOTE 13 – NOTE PAYABLE

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of $1,480,000 on September 6, 2017 and the second advance of $2,785,000 on December 22, 2017.

Fiscal Year Ending June 30,	Payments
2020	$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	(6,472,654)
Total	$ 4,181,388

NOTE 14 – NET ASSETS

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

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 272,871	$ 14,716
Unrestricted	7,255,639	7,487,577
Total Net Assets without Donor Restrictions	$ 7,528,510	$ 7,502,293

NOTE 15 - RELATED PARTY TRANSACTIONS

MSA Santa Ana is part of the Foundation. MSA Santa Ana pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for the year ended June 30, 2019 and 2018, were $1,095,870 and $1,079,401, respectively.

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

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

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

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA Santa Ana contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

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

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

MSA Santa Ana contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA Santa Ana's total contributions were $421,966 and $404,295, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA Santa Ana is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $130,507 and $73,135, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $124,753 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $16,100 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 17 - CONTINGENCIES

Grants

MSA Santa Ana has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA Santa Ana is not currently a party to any legal proceedings.

NOTE 18 - PARTICIPATION IN JOINT POWERS AUTHORITY

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

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA Santa Ana are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA Santa Ana made payments of $74,024 and $76,477, respectively, to CharterSAFE for services received. At June 30, 2019, MSA Santa Ana had no recorded accounts receivable or accounts payable to CharterSAFE.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 19 - SUBSEQUENT EVENTS

MSA Santa Ana's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy Santa Ana (Charter Number 1686) was granted on August 1, 2014, by the California State Board of Education. MSA Santa Ana operates one school, for students in transitional kindergarten through grade twelve.

BOARD OF DIRECTORS

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

ADMINISTRATION

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

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	211.80	212.02
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Regular ADA	640.00	638.51
Classroom based ADA		
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Classroom based ADA	640.00	638.51

MSA Santa Ana did not operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

	1986-87	2018-19	Number of Days		
Grade Level	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	Status
Kindergarten	36,000	50,015	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,585	181	N/A	Complied
Grade 2		54,585	181	N/A	Complied
Grade 3		54,585	181	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,585	181	N/A	Complied
Grade 5		54,585	181	N/A	Complied
Grade 6		66,382	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		66,382	181	N/A	Complied
Grade 8		66,382	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,382	181	N/A	Complied
Grade 10		66,382	181	N/A	Complied
Grade 11		66,382	181	N/A	Complied
Grade 12		66,382	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

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

NET ASSETS	
Net Assets, June 30, 2019, Unaudited Actuals	$ 8,025,658
Increase (Decrease) in:	
Accounts receivable	(488,291)
Intercompany receivable	618,358
Prepaid expenses and other current assets	(25,046)
Accumulated depreciation	(361,825)
(Increase) Decrease in:	
Accounts payable	354,054
Deferred revenue	(664)
Intercompany payable	(2,375,621)
Note payable	(4,181,388)
long-term obligation	6,191,288
Net Assets, June 30, 2019, Audited Financial Statement	$ 7,528,510

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial Report With Audited Financial Statements

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated ______________, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA Santa Ana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001.

MSA Santa Ana's Response to Findings

MSA Santa Ana's response to the findings identified in our audit are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs. MSA Santa Ana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Santa Ana's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Ana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_______________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's Santa Ana (MSA Santa Ana) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA Santa Ana's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA Santa Ana's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA Santa Ana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA Santa Ana's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Santa Ana complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

MSA Santa Ana did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

MSA Santa Ana does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA Santa Ana does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non classroom-Based Instruction.

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

Rancho Cucamonga, California
_______________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	Yes
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

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

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2019-001 **30000 – Financial Statement Preparation and Audit Adjustments**

Criteria or Specific Requirements

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting of accrual basis accounting under the requirements of the Financial Accounting Standards Board (FASB). It also includes the ability to prepare the required footnote disclosures by FASB.

Condition

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries and footnotes.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to depreciation expense was not recorded and accounted for due to not having a control system in place.

Effect

The auditor proposed certain accrual closing entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles to address the year end adjustment.

Cause

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

Recommendation

Management and those charged with governance should implement a control system which allows for the monitoring of accruals and the related disclosure and consider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

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

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

None reported.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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

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

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

TABLE OF CONTENTS
JUNE 30, 2019

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ___________, 2019, on our consideration of MSA San Diego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA San Diego's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control over financial reporting and compliance.

Rancho Cucamonga, California
________________, 2019

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 235,322	$ 657,784
Accounts receivable	133,499	271,945
Intercompany receivable	116,401	-
Prepaid expenses and other current assets	291	128,519
Total Current Assets	485,513	1,058,248
Non-Current Assets		
Investments in LLC	198,191	198,191
Restricted cash	106,607	106,607
Property and equipment	667,450	667,450
Less: accumulated depreciation	(387,776)	(372,561)
Total Non-Current Assets	584,472	599,687
Total Assets	$ 1,069,985	$ 1,657,935
Liabilities		
Current Liabilities		
Accounts payable	$ 386,200	$ 137,405
Intercompany payable	223,766	215,638
Total Current Liabilities	609,966	353,043
Long-Term Obligations		
Non-current portion of long-term obligation	151,806	151,806
Total Liabilities	761,772	504,849
Net Assets		
Without donor restrictions		
Designated	237,447	349,323
Unrestricted	70,766	803,763
Total Net Assets	308,213	1,153,086
Total Liabilities and Net Assets	$ 1,069,985	$ 1,657,935

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Revenues		
Local Control Funding Formula	$ 2,946,503	$ 2,947,210
Federal revenue	107,361	117,595
State revenue	544,317	788,908
Local revenue	93,070	99,365
Total Revenues	3,691,251	3,953,078
Expenses		
Program services	2,738,687	2,173,624
Management and general	1,797,437	1,875,054
Total Expenses	4,536,124	4,048,678
Change in Net Assets	(844,873)	(95,600)
Net Assets, Beginning of Year	1,153,086	1,248,686
Net Assets, End of Year	$ 308,213	$ 1,153,086

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	$ (844,873)	$ (95,600)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	15,216	30,567
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	138,446	(21,283)
(Increase) in intercompany receivable	(116,401)	11,025
Decrease in prepaid expenses	128,228	117,518
(Decrease) in security deposits	-	25,000
Increase in accounts payable	248,795	976
(Decrease) in intercompany payable	8,127	185,876
Net Cash Provided (Used) by Operating Activities	(422,462)	254,079
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(198,191)
Capital expenditures	-	(18,165)
Net Cash Used by Investing Activities	-	(216,356)
Net Decrease in Cash	(422,462)	37,723
Cash, Beginning of Year	657,784	620,061
Cash, End of Year	$ 235,322	$ 657,784
Supplemental cash flow disclosure		
Cash paid during the period for interest	$ -	$ -

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	$ 1,570,424	$ 366,001	$ 1,936,425
Employee benefits	272,446	-	272,446
Payroll taxes	538,852	87,532	626,384
Total Personnel	2,381,722	453,533	2,835,255
Operating			
Fees for services	-	51,209	51,209
Advertising and promotions	-	4,798	4,798
Office expenses	15,897	10,098	25,995
Information technology	5,511	-	5,511
Occupancy	-	819,818	819,818
Travel	-	7,794	7,794
Conferences and meeting	-	4,179	4,179
Depreciation	15,216	-	15,216
Insurance	-	20,103	20,103
Other expenses	105,272	24,813	130,085
Capital outlay	66,860	-	66,860
Special Education Local Plan Area fees	60,655	-	60,655
Instructional materials	52,691	-	52,691
Nutrition	3,667	-	3,667
District oversight fees	31,196	-	31,196
Management fees	-	401,092	401,092
Total Operating	356,965	1,343,904	1,700,869
Total Functional Expenses	$ 2,738,687	$ 1,797,437	$ 4,536,124

The accompanying notes are an integral part of these financial statements.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFCANT ACCOUNTING POLICIES

Organization

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (MSA San Diego) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 404 students. The School offers a rich academic program with elective classes, tutoring, and after school clubs. It was the most improved middle school according to all API scores in the year 2007. The School was created under the approval of the San Diego Unified School District (SDUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA San Diego is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA San Diego's Charter School Management Organization (CMO) that manages MSA San Diego's nonacademic operation such as financial, general administration, and human resource management. MSA San Diego's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

MPM San Diego, LLC

MERF formed the MPM San Diego, LLC (the LLC) exclusively for the acquisition of property and assets of Magnolia Science Academy Charter Schools, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The Magnolia Science Academy San Diego (MSA-SD) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SD Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School’s audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over $5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution

- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation

- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets.

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	$ 1,248,686	$ (1,248,686)	$ -
Net assets without donor restrictions		1,248,686	1,248,686
Net assets, end of the year			
Unrestricted	$ 1,153,086	$ (1,153,086)	$ -
Net assets without donor restrictions	-	1,153,086	1,153,086

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
Deposits	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Cash on hand and in banks	$ 152,872	$ 198,166	$ 595,726	$ 1,262,083
Cash with San Diego County Investment Pool	82,450	N/A	62,058	N/A
	$ 235,322	$ 198,166	$ 657,784	$ 1,262,083

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had $195,401 and $654,179 in excess of insured limits.

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	2019	2018
Financial Assets:		
Cash and cash equivalents	$ 235,322	$ 657,784
Accounts receivable	133,499	271,945
Prepaid expenses and other assets	291	128,519
Financial Assets, at year end	485,513	1,058,248
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	(237,447)	(349,323)
Financial assets available to meet cash needs for general expenditures within one year	$ 248,066	$ 708,925

NOTE 4 - RESTRICTED CASH

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2019 and 2018, was comprised of the following:

	2019	2018
Current restricted cash	$ 106,607	$ 106,607

Restricted cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2019 and 2018, MSA San Diego had $0 and $0, respectively, in excess of insured limits.

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

Investment Type	2019 Reported Amount	2018 Reported Amount
San Diego County Pooled Investment Funds	$ 82,450	$ 62,058

All assets have been valued using a market approach, with quoted market prices.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. MSA San Diego does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. MSA San Diego manages its exposure to interest rate risk by investing in the County Pool.

Weighted Average Maturity

MSA San Diego monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

	2019		2018	
Investment Type	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
San Diego County Pooled Investment Funds	$ 82,450	528	$ 62,058	370

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MSA San Diego determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Uncategorized - Investments in the San Diego County Treasury Investment Pools are not measured using the input levels above because MSA San Diego's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

MSA San Diego's fair value measurements are as follows at June 30, 2019 and 2018:

	2019		2018	
Investment Type	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
San Diego County Pooled Investment Funds	$ 82,450	$ 82,450	$ 62,058	$ 62,058

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	$ -	$ 158,421
Federal receivables	56,297	64,072
State receivables	77,202	39,073
Lottery	-	10,379
	$ 133,499	$ 271,945

NOTE 8 - INTERCOMPANY RECEIVABLE

The intercompany receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA San Diego had an intercompany receivable balance of $116,401 and $0, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	$ 291	$ 128,519

NOTE 10 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Computers and equipment	$ 410,868	$ 410,868
Work in progress	256,582	256,582
Subtotal	667,450	667,450
Less: accumulated depreciation	(387,776)	(372,561)
Total property and equipment	$ 279,674	$ 294,889

NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	$ 250,979	$ 45,626
Vendor payable	135,221	87,373
Due to other agencies	-	4,406
	$ 386,200	$ 137,405

NOTE 12 - INTERCOMPANY PAYABLE

The intercompany payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2019 and 2018, MSA San Diego had an intercompany payable balance of $223,766 and $215,638, respectively, from the Foundation.

NOTE 13 - LONG–TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA San Diego by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a (0.33) Debt Service Coverage Ratio and did not meet compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage	
Net Income	$ (844,873)
Depreciation	15,216
Rent	473,760
Management Fees (50%)	200,546
Income Available for Coverage	(155,351)
Debt Service	473,760
Debt Service Coverage	**(0.33)**
Limit	1.10
Compliance	No

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA San Diego had 51 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand		
Total Expenses	$	1,700,869
Depreciation		15,216
Cash Expenses		1,685,653
Expense/Day		4,618
Cash		235,322
Days Cash on Hand		**51**
Limit		45
Compliance		Yes

Charter School Facilities Program

MSA San Diego has been approved by the State of California’s Charter School Facilities Program for $3,036,122 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of $3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of $1,518,061 and the other 50 percent through a grant in the amount of $1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller’s Office will deduct the loan payments from MSA San Diego’s State School Fund Apportionments. The outstanding loan balance as of June 30, 2019 and 2018, was $151,806 and $151,806, respectively.

NOTE 14 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	$ 237,447	$ 349,323
Unrestricted	70,766	803,763
Total Net Assets without Donor Restrictions	$ 308,213	$ 1,153,086

NOTE 15 - FACILITIES USE AGREEMENT

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with San Diego Unified School District (SDUSD) for the sole purpose of operating MSA San Diego education programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2019, was $721,589.

NOTE 16 - RELATED PARTY TRANSACTIONS

MSA San Diego is part of the Foundation. MSA San Diego pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2019 and 2018, is $401,092 and $324,470, respectively.

NOTE 17 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA San Diego chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA San Diego has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

MSA San Diego contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:
http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

MSA San Diego contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA San Diego's total contributions were $240,780 and $201,763, respectively.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	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	18.062%	18.062%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MSA San Diego is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and the total Charter School contributions were $64,037 and $28,775, respectively.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $235,821 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of $13,108 (SB 90 contribution only. Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of $2.2456 billion for CalSTRS and $904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 18 - CONTINGENCIES

Grants

MSA San Diego has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time." Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

MSA San Diego is not currently a party to any legal proceedings.

NOTE 19 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA San Diego are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA San Diego and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA San Diego for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and MSA San Diego are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA San Diego made payments of $38,077 and $43,695, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, respectively, MSA San Diego had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 20 - SUBSEQUENT EVENTS

MSA San Diego's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ______________, 2019, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2019

ORGANIZATION

Magnolia Science Academy San Diego (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District. MSA San Diego operates one school, grades six through eight.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2019

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Regular ADA	386.25	383.65
Classroom based ADA		
Fourth through sixth	141.79	140.49
Seventh and eighth	244.46	243.16
Total Classroom based ADA	386.25	383.65

MSA San Diego operated a short-term independent study program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2019

Grade Level	1986-87 Minutes Requirement	2018-19 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grade 6	54,000	59,826	178	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		59,826	178	N/A	Complied
Grade 8		59,826	178	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS		
Net Assets, June 30, 2019, Unaudited Actuals	$	342,662
Increase (Decrease) in:		
Cash and cash equivalents		(106,607)
Intercompany receivable		116,401
Prepaid expenses and other current assets		8,816
Restricted cash		106,607
(Increase) Decrease in:		
Accounts payable		64,100
Intercompany payable		(223,766)
Net Assets, June 30, 2019, Audited Financial Statement	$	308,213

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA San Diego. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA San Diego and whether MSA San Diego complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy San Diego (MSA San Diego) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____________, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA San Diego's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA San Diego's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA San Diego's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA San Diego's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSA San Diego's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA San Diego in a separate letter dated _______________, 2019.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA San Diego's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_________________, 2019

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy San Diego
(A California Nonprofit Public Benefit Corporation)
San Diego, California

Report on State Compliance

We have audited Magnolia Science Academy's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of MSA San Diego's State government programs as noted below for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of MSA San Diego's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about MSA San Diego's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of MSA San Diego's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA San Diego complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA San Diego's compliance with the State laws and regulations applicable to the following items:

	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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

MSA San Diego does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA San Diego does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA San Diego did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
____________________, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

MAGNOLIA SCIENCE ACADEMY SAN DIEGO
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.