



Board Agenda Item #	II B- Action Item
Date:	9/24/2020
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Serdar Orazov, CFO
RE:	Approval of the Intra-Organizational loan agreements

Proposed Board Motion

I move that the board approves the Intra-Organization loan agreements between MERF and school sites.

Background

As was presented at 7/23/20 meeting, LAUSD’s annual oversight report includes recommendations for areas of growth and improvements. One of the recommendations is to implement Fiscal Crisis and Management Assistance Team (“FCMAT”) guidelines for Intra-Organization transactions. The guideline states that any loan amount between the schools that are not fully paid back as of the year-end should be converted to a loan with specific terms.

To implement the recommendation in the oversight report, the staff prepared agreements for any loans that have outstanding balances as of 6/30/2020.

Budget Implications

There are no budget implications as this is to convert and document the Intra-Organization transactions into loan agreements.

1. Exhibits (attachments):
  - Loan agreements between MERF and MSA-1, 8, Santa Ana, San Diego and agreement between MSA-1 and MSA-5
  - Intra-Organization loans master schedule

NOTE: The agreements will be signed and executed upon board approval

## **INTRAORGANIZATION LOAN AGREEMENT**

This Intraorganization Loan Agreement (this “Agreement”) dated as of June 30, 2020, is entered into by Magnolia Science Academy— 1 (“Lender”) and Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation and operator of Borrower (“Magnolia” or “Borrower”).

### **RECITALS**

A. Magnolia has established and is operating Lender pursuant the Charter Schools Act of 1992, as amended (the “Act”). Magnolia operates Lender within Magnolia’s corporate organization. The Act requires Magnolia to separately account for the assets, liabilities, revenues, expenses and results of operations of Magnolia and Lender as if they were separate legal entities.

B. Lender and Borrower entered into an intraorganization loan (the “ Loan”) as of June 30, 2020. As of the date of this Agreement, the unpaid principal balance of the Loan is \$550,247.

C. The “California Charter School Accounting and Best Practices Manual” published by the Fiscal Crisis and Management Assistance Team (“FCMAT”) states that “[a]t the end of the fiscal year, each school’s receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.”

D. In accordance with FCMAT guidance, Magnolia desires to document the terms upon which the balance of the Loan outstanding as of last day of the fiscal year of Magnolia in which the Loan was made shall be repaid by Borrower to Lender.

### **AGREEMENT**

In consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, Magnolia agrees as follows:

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of two percent (2.00%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender monthly commencing on the first calendar month following the date of this Agreement by no later than the fifteenth (15<sup>th</sup>) day of each calendar month.

2. Commencing on the first calendar month following the date of this Agreement, Borrower shall make monthly payments that includes principal and interest to Lender in the amount of \$9,354.20.

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3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2025 (the "Maturity Date"). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

4. If Borrower's state apportionment revenue is subject to payment deferral by order of statute, then Borrower may defer payment to Lender with no penalty incurred until the Maker receives said deferred funds.

5. Borrower's obligations under this Agreement are subordinated to all indebtedness, if any, of Borrower, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness

IN WITNESS WHEREOF, Borrower and Lender have each executed this Agreement as of the date first written above.

**Lender:**

**Magnolia Science Academy— 1**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Borrower:**

**Magnolia Educational & Research  
Foundation  
dba Magnolia Public Schools**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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Agreement

## **INTRAORGANIZATION LOAN AGREEMENT**

This Intraorganization Loan Agreement (this “Agreement”) dated as of June 30, 2020, is entered into by Magnolia Science Academy— 5 (“Lender”) and Magnolia Science Academy – 1 (“Borrower”), each a California public charter school operated by Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation (“Magnolia”).

### **RECITALS**

A. Magnolia has established and is operating Borrower and Lender pursuant to the Charter Schools Act of 1992, as amended (the “Act”). Magnolia operates Borrower and Lender within Magnolia’s corporate organization. The Act requires Magnolia to separately account for the assets, liabilities, revenues, expenses and results of operations of Magnolia, Borrower and Lender as if they were separate legal entities.

B. Lender made a loan to Borrower on or about April 16, 2020 (the “Loan”) for purposes of Borrower using the proceeds to complete the new construction project at 18220 Sherman Way. As of the date of this Agreement, the unpaid principal balance of the Loan is \$1,000,000.

C. The “California Charter School Accounting and Best Practices Manual” published by the Fiscal Crisis and Management Assistance Team (“FCMAT”) states that “[a]t the end of the fiscal year, each school’s receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.”

D. In accordance with FCMAT guidance, Magnolia desires to document the terms upon which the balance of the Loan outstanding as of last day of the fiscal year of Magnolia in which the Loan was made shall be repaid by Borrower to Lender.

### **AGREEMENT**

In consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, Magnolia agrees as follows:

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of two percent (2.00%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender quarterly commencing on the first calendar month following the first quarter of this Agreement and thereafter on the first calendar month following the preceding quarter by no later than the fifteenth (15<sup>th</sup>) day of said month (in other words, (i) by no later than October 15<sup>th</sup> for the first quarter of July to September, (ii) by no later than January 15<sup>th</sup> for October to December, (iii) by no later than April 15<sup>th</sup> for January to March, and (iv) by no later than July 15<sup>th</sup> for April to June .

2. Commencing with October 2020, the first calendar month following the first quarter of this Agreement and thereafter on the first calendar month following the preceding quarter, Borrower shall make quarterly payments that includes principal and interest to Lender in the amount of \$55,577.67.

3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2025 (the "Maturity Date"). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

4. If Borrower's state apportionment revenue is subject to payment deferral by order of statue, then Borrower may defer payment to Lender with no penalty incurred until the Maker receives said deferred funds.

5. Borrower's obligations under this Agreement are subordinated to all indebtedness, if any, of Borrower, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness

IN WITNESS WHEREOF, Borrower and Lender have each executed this Agreement as of the date first written above.

**Lender:**

**Borrower:**

**Magnolia Science Academy— 5**

**Magnolia Science Academy— 1**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

Magnolia:

Magnolia Educational & Research  
Foundation dba Magnolia Public Schools

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## INTRAORGANIZATION LOAN AGREEMENT

This Intraorganization Loan Agreement (this “Agreement”) dated as of June 30, 2020, is entered into by Magnolia Science Academy— 8 (“Lender”) and Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation and operator of Borrower (“Magnolia” or “Borrower”).

### RECITALS

A. Magnolia has established and is operating Lender pursuant the Charter Schools Act of 1992, as amended (the “Act”). Magnolia operates Lender within Magnolia’s corporate organization. The Act requires Magnolia to separately account for the assets, liabilities, revenues, expenses and results of operations of Lender as if they were separate legal entities.

B. Lender and Borrower entered into an intraorganization loan (the “Loan”) as of 6/30/2020. As of the date of this Agreement, the unpaid principal balance of the Loan is \$2,248,497.

C. The “California Charter School Accounting and Best Practices Manual” published by the Fiscal Crisis and Management Assistance Team (“FCMAT”) states that “[a]t the end of the fiscal year, each school’s receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.”

D. In accordance with FCMAT guidance, Magnolia desires to document the terms upon which the balance of the Loan outstanding as of last day of the fiscal year of Magnolia in which the Loan was made shall be repaid by Borrower to Lender.

### AGREEMENT

In consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, Magnolia agrees as follows:

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of two percent (2.0%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender monthly commencing on the first calendar month following the date of this Agreement by no later than the fifteenth (15<sup>th</sup>) day of each calendar month..

2. Commencing on the first calendar month following the date of this Agreement, Borrower shall make monthly payments that includes principal and interest to Lender in the amount of \$38,224.45.

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3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2025 (the "Maturity Date"). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

4. If Borrower's state apportionment revenue is subject to payment deferral by order of statute, then Borrower may defer payment to Lender with no penalty incurred until the Maker receives said deferred funds.

5. Borrower's obligations under this Agreement are subordinated to all indebtedness, if any, of Borrower, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness

IN WITNESS WHEREOF, Borrower and Lender have each executed this Agreement as of the date first written above.

**Lender:**

**Magnolia Science Academy— 8**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Borrower:**

**Magnolia Educational & Research  
Foundation  
dba Magnolia Public Schools**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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Agreement

## **INTRAORGANIZATION LOAN AGREEMENT**

This Intraorganization Loan Agreement (this “Agreement”) dated as of June 30, 2020, is entered into by Magnolia Science Academy— Santa Ana (“Borrower”) and Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation and operator of Borrower (“MERF” or “Lender”).

### **RECITALS**

A. Magnolia has established and is operating Borrower pursuant the Charter Schools Act of 1992, as amended (the “Act”). Magnolia operates Borrower within Magnolia’s corporate organization. The Act requires Magnolia to separately account for the assets, liabilities, revenues, expenses and results of operations of Borrower as if they were separate legal entities.

B. Lender and Borrower entered into an intraorganization loan (the “Loan”) as of 6/30/2020. As of the date of this Agreement, the unpaid principal balance of the Loan is \$1,405,810.

C. The “California Charter School Accounting and Best Practices Manual” published by the Fiscal Crisis and Management Assistance Team (“FCMAT”) states that “[a]t the end of the fiscal year, each school’s receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.”

D. In accordance with FCMAT guidance, Magnolia desires to document the terms upon which the balance of the Loan outstanding as of last day of the fiscal year of Magnolia in which the Loan was made shall be repaid by Borrower to Lender.

### **AGREEMENT**

In consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, Magnolia agrees as follows:

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of two percent (2.0%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender monthly commencing on the first calendar month following the date of this Agreement by no later than the fifteenth (15<sup>th</sup>) day of each calendar month.

2. Commencing on the first calendar month following the date of this Agreement, Borrower shall make monthly payments that includes principal and interest to Lender in the amount of \$23,898.77.



3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2025 (the “Maturity Date”). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

4. If Borrower’s state apportionment revenue is subject to payment deferral by order of statute, then Borrower may defer payment to Lender with no penalty incurred until the Maker receives said deferred funds.

5. Borrower’s obligations under this Agreement are subordinated to all indebtedness, if any, of Borrower, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness

IN WITNESS WHEREOF, Borrower and Lender have each executed this Agreement as of the date first written above.

**Lender:**

**Borrower:**

**Magnolia Educational & Research  
Foundation  
dba Magnolia Public Schools**

**Magnolia Science Academy— Santa Ana**

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Title: \_\_\_\_\_

## INTRAORGANIZATION LOAN AGREEMENT

This Intraorganization Loan Agreement (this “Agreement”) dated as of June 30, 2020, is entered into by Magnolia Science Academy— San Diego (“Borrower”) and Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation and operator of Borrower (“MERF” or “Lender”).

### RECITALS

A. Magnolia has established and is operating Borrower pursuant the Charter Schools Act of 1992, as amended (the “Act”). Magnolia operates Borrower within Magnolia’s corporate organization. The Act requires Magnolia to separately account for the assets, liabilities, revenues, expenses and results of operations of Borrower as if they were separate legal entities.

B. Lender and Borrower entered into an intraorganization loan (the “Loan”) as of 6/30/2020. As of the date of this Agreement, the unpaid principal balance of the Loan is \$885,893.

C. The “California Charter School Accounting and Best Practices Manual” published by the Fiscal Crisis and Management Assistance Team (“FCMAT”) states that “[a]t the end of the fiscal year, each school’s receivable or payable loan account (also known as due to/due from account) should be reconciled. Once balances are reconciled, any charter school or central office intraorganization receivable or payable balance that is not fully repaid as of the close of the fiscal year may result in and be subject to an intraorganization loan agreement. Intraorganization loan agreements between each school and the central office are prepared at the end of the fiscal year to formally document the amount owed between the intracompany accounts and the repayment terms.”

D. In accordance with FCMAT guidance, Magnolia desires to document the terms upon which the balance of the Loan outstanding as of last day of the fiscal year of Magnolia in which the Loan was made shall be repaid by Borrower to Lender.

### AGREEMENT

In consideration of the foregoing, the mutual promises contained herein, and other good and valuable consideration, Magnolia agrees as follows:

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of two percent (2.0%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender monthly commencing on the first calendar month following the date of this Agreement by no later than the fifteenth (15<sup>th</sup>) day of each calendar month.

2. Commencing on the first calendar month following the date of this Agreement, Borrower shall make monthly payments that includes principal and interest to Lender in the amount of \$15,060.17.

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3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2025 (the "Maturity Date"). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

4. If Borrower's state apportionment revenue is subject to payment deferral by order of statute, then Borrower may defer payment to Lender with no penalty incurred until the Maker receives said deferred funds.

5. Borrower's obligations under this Agreement are subordinated to all indebtedness, if any, of Borrower, to any unrelated third party lender to the extent such indebtedness is outstanding on the date of this Agreement and such subordination is required under the loan documents providing for such indebtedness

IN WITNESS WHEREOF, Borrower and Lender have each executed this Agreement as of the date first written above.

**Lender:**

**Magnolia Educational & Research  
Foundation  
dba Magnolia Public Schools**

**Borrower:**

**Magnolia Science Academy— San Diego**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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