



Board Agenda Item #	II C: Information/Discussion Item
Date:	February 24, 2022
To:	Magnolia Public Schools - Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Steve Budhrajia Ed.D., Chief Financial Officer
RE:	MSA 1, 2, 3 & 5 - Annual Authorizer Oversight Reports (LACOE)

Proposed Board Recommendation

Information/Discussion Item

Background

LACOE Fiscal Oversight - Overview

Per Education Code (EC) Section 42131, charter authorizers are required to review the financial condition of the of their authorized schools on a regular basis during the year. There were corrective action findings noted in the 2019-20 Audit Report related to internal controls, specifically during the year-end closing process in which accounts receivable, prepaid expenses and accounts payable were not recorded in a timely manner. All of the necessary corrective actions were made by Finance Department staff and included as Updates to Fiscal Policies that were approved by the Board during the February 11, 2021 meeting. As a result, these finding were implemented in the 2020-21 Audit Report that was presented to the Board on January 20,2022. In addition, the most recent 2020-21 Audit reflected no findings, material weaknesses or deficiencies.

Based upon the review of financial data for 2019-20 & 2020-21, the Los Angeles County Office of Education (LACOE) concurred that the MSA 1, 2, 3 & 5 schools should be able to meet their financial obligations.

Budget Implications

N/A

Exhibits (Attachments):

Fiscal Annual Reports for MSA 1, 2, 3 & 5, 2019-20 Audit Report & First & Second Interim Reports as listed below.

School	Authorizer	Financials Reviewed	Dates/Notes
MSA-1	LACOE	2019-20 Audit Report, 2020-21 First & Second Interim Report	6/20/20; 2/11/21; 4/20/21;
MSA-2	LACOE	2019-20 Audit Report, 2020-21 First & Second Interim Report	6/20/20; 2/11/21; 4/20/21;

MSA-3	LACOE	2019-20 Audit Report, 2020-21 First & Second Interim Report	6/20/20; 2/11/21; 4/20/21;
MSA-5	LACOE	2019-20 Audit Report, 2020-21 First & Second Interim Report	6/20/20; 2/11/21; 4/20/21;

BUSINESS ADVISORY SERVICES DIVISION

Magnolia Science Academy #1

FISCAL ANNUAL REPORT

Financial Overview (FY 2020-21)

First Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

Second Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

References: Charter Letters dated (February 11, 2021 & April 20, 2021)

ANNUAL AUDIT (FY 2019-20)

The Auditor's opinion expressed in the Independent Auditors' Reports for this period for Magnolia Science Academy #1 financial statements result in an unmodified opinion.

Findings

YES NO NA

Implemented

YES NO NA

Related Party Transactions

YES NO NA

Outstanding Findings:

YES NO NA

Audit Adjustment

YES NO NA

Annual Audit FY 2019-20 (cont.)**Related Party Transactions****Magnolia Educational and Research Foundation**

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

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

Magnolia Properties Management, Inc. (MPM Inc.)

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

MPM Sherman Way, LLC

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

Intercompany Receivable/Payable

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

Audit Adjustment

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

NET ASSETS

Net Assets, June 30, 2020, Unaudited Actuals	\$5,138,251
Increase in:	
Accounts receivable	157,448
Prepaid expenses	107,966

Accounts payable	<u>(101,550)</u>
Balance, June 30, 2020 Audited Financial Statements	<u>\$5,302,115</u>

Adjustments were made to the following activities – see page 25 of the FY 2019-20 audit.

Findings

2020-001

Criteria or Specific Requirements

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

Condition

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor.

Questioned costs

There are no questioned costs identified with the condition note.

Context

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

Effect

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

Cause

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

Recommendation

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

Repeat Finding (Yes or No)

No.

Corrective Action Plan and Views of Responsible Officials

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

Financial Condition:

FY/ Source	Total Revenues	Total Expenditures	Net Operating Surplus (Deficit)	Working Capital Ratio	Debt To Net Assets Ratio	Ending Fund Balance	Any Reserves/ Is it Adequate
2020-21 Budget	10,785,540	\$9,873,677	\$911,863				
2020-21 Actuals As of 6/30/21	\$10,570,954	\$8,831,490	\$1,739,464	3.52	0.19	\$7,041,579	Yes/Yes

Results based on the above chart for Magnolia Science Academy #1:

- The charter has a current Net Operating surplus of \$1,739,464
- Charter's working capital ratio meets the current standard of 1.0 or greater to meet its current obligations
- The Debt to Net Assets Ratio is positive and meets the standard
- The ending fund balance is \$7,041,579
- Charter met the required reserves as of 6/30/2021

(Link to FCMAT)**[FCMAT Indicators of Risk or Potential Insolvency](#)**

No FCMAT indicators were identified.

Magnolia Science Academy #2

FISCAL ANNUAL REPORT

Financial Overview (FY 2020-21)

First Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

Second Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

References: Charter Letters dated (February 11, 2021 & April 26, 2021)

ANNUAL AUDIT (FY 2019-20)

The Auditor's opinion expressed in the Independent Auditors' Reports for this period for Magnolia Science Academy #2 financial statements result in an unmodified opinion.

Findings

YES NO NA

Implemented

YES NO NA

Related Party Transactions

YES NO NA

Outstanding Findings:

YES NO NA

Audit Adjustment

YES NO NA

Annual Audit FY 2019-20 (cont.)**Related Party Transactions****Magnolia Educational and Research Foundation**

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

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

Intercompany Receivable/Payable

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

Audit Adjustment

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

NET ASSETS	
Balance, June 30, 2020, Unaudited Actuals	\$1,600,557
Decrease in:	
Accounts receivable	(87,746)
Accounts payable	64,057
Increase in:	
Prepaid expenses	106
Balance, June 30, 2020 Audited Financial Statements	<u>\$1,576,974</u>

Adjustments were made to the following activities – see page 25 of the FY 2019-20 audit.

Financial Condition:

FY/ Source	Total Revenues	Total Expenditures	Net Operating Surplus (Deficit)	Working Capital Ratio	Debt To Net Assets Ratio	Ending Fund Balance	Any Reserves/ Is it Adequate
2020-21 Budget	\$6,207,757	\$5,990,333	\$217,424				
2020-21 Actuals As of 6/30/21	\$6,485,369	\$5,386,689	\$1,098,680	4.89	0.23	\$2,675,654	Yes/Yes

Results based on the above chart for **Magnolia Science Academy #2:**

- The charter has a current Net Operating surplus of \$1,098,680
- Charter's working capital ratio meets the current standard of 1.0 or greater to meet its current obligations
- The Debt to Net Assets Ratio is positive and meets the standard
- The ending fund balance is \$2,675,654
- Charter met the required reserves as of 6/30/2021

(Link to FCMAT)**[FCMAT Indicators of Risk or Potential Insolvency](#)**

No FCMAT indicators were identified.

BUSINESS ADVISORY SERVICES DIVISION

Magnolia Science Academy #3

FISCAL ANNUAL REPORT

Financial Overview (FY 2020-21)

First Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

Second Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year

References: Charter Letters dated (February 11, 2021 & April 26, 2021)

ANNUAL AUDIT (FY 2019-20)

The Auditor's opinion expressed in the Independent Auditors' Reports for this period for Magnolia Science Academy #3 financial statements result in an unmodified opinion.

Findings

YES NO NA

Implemented

YES NO NA

Related Party Transactions

YES NO NA

Outstanding Findings:

YES NO NA

Audit Adjustment

YES NO NA

Annual Audit FY 2019-20 (cont.)**Related Party Transactions****Magnolia Educational and Research Foundation**

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

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

Intercompany Receivable/Payable

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

Audit Adjustment

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

NET ASSETS	
Net Assets, June 30, 2020, Unaudited Actuals	\$ 794,205
Increase in:	
Accounts receivable	(17,005)
Prepaid expenses	(333)
Accounts payable	<u>23,848</u>
Balance, June 30, 2020 Audited Financial Statements	<u>\$ 800,715</u>

Adjustments were made to the following activities – see page 24 of the FY 2019-20 audit.

Findings**2020-001 Code 40000****Criteria or Specific Requirements**

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

Condition

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

Questioned costs

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

Context

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

Effect

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

Cause

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

Recommendation

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

Repeat Finding (Yes or No)

No

Corrective Action Plan and View of Responsible Officials

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

Financial Condition:

FY/ Source	Total Revenues	Total Expenditures	Net Operating Surplus (Deficit)	Working Capital Ratio	Debt To Net Assets Ratio	Ending Fund Balance	Any Reserves/ Is it Adequate
2020-21 Budget	\$6,472,333	\$6,404,521	\$67,812				
2020-21 Actuals As of 6/30/21	\$6,544,706	\$5,674,421	\$870,285	5.03	0.23	\$1,671,000	Yes/Yes

Results based on the above chart for **Magnolia Science Academy #3:**

- The charter has a current Net Operating surplus of \$870,285
- Charter's working capital ratio does meet the current standard of 1.0 or greater to meet its current obligations
- The Debt to Net Assets Ratio is positive and meets the standard.
- The ending fund balance is \$1,671,000
- Charter met the required reserves as of 6/30/2021

(Link to FCMAT)

[FCMAT Indicators of Risk or Potential Insolvency](#)

No FCMAT indicators were identified.

BUSINESS ADVISORY SERVICES DIVISION

Magnolia Science Academy #5

FISCAL ANNUAL REPORT

Financial Overview (FY 2020-21)

First Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year.

Second Interim Report

Our analysis of the data provided indicates the Charter should be able to meet its financial obligations for the current year.

References: Charter Letters dated (February 11, 2021 & April 20, 2021)

ANNUAL AUDIT (FY 2019-20)

The Auditor's opinion expressed in the Independent Auditors' Reports for this period for Magnolia Science Academy #5 financial statements result in an unmodified opinion.

Findings

YES NO NA

Implemented

YES NO NA

Related Party Transactions

YES NO NA

Outstanding Findings:

YES NO NA

Audit Adjustment

YES NO NA

Annual Audit FY 2019-20 (cont.)**Related Party Transactions**

Magnolia Educational and Research Foundation

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

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

Inter-company Receivable/Payable

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

Audit Adjustment

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

NET ASSETS

Balance, June 30, 2020, Unaudited Actuals	\$2,067,563
Increase (Decrease) in:	
Accounts Payable	47,213
(Increase) Decrease in:	
Accounts receivable	<u>(7,392)</u>
Balance, June 30, 2020, Audited Financial Statement	<u>\$2,107,384</u>

Adjustments were made to the following activities – see page 24 of FY 2019-20 audit.

Financial Condition:

FY/ Source	Total Revenues	Total Expenditures	Net Operating Surplus (Deficit)	Working Capital Ratio	Debt To Net Assets Ratio	Ending Fund Balance	Any Reserves/ Is it Adequate
2020-21 Budget	\$4,245,842	\$3,919,116	\$326,726				
2020-21 Actuals As of 6/30/21	\$4,127,693	\$3,464,009	\$663,684	8.88	0.12	\$2,771,068	Yes/Yes

Results based on above chart for **Magnolia Science Academy #5:**

- The charter has a current Net Operating surplus of \$663,684
- Charter's working capital ratio does meet the current standard of 1.0 or greater to meet its current obligations
- The Debt to Net Assets Ratio is positive and meets the standard.
- The ending fund balance is \$2,771,068
- Charter met the required reserves as of 6/30/2021

(Link to FCMAT)**[FCMAT Indicators of Risk or Potential Insolvency](#)**

No FCMAT indicators were identified.