



MAGNOLIA PUBLIC SCHOOLS

Board Of Directors

Board Agenda Item	II B
Date:	December 10 , 2015
To:	Magnolia Board of Directors
From:	Caprice Young, Ed.D., CEO & Superintendent
Staff Lead:	Oswaldo Diaz, Chief Financial Officer
RE:	Approval of 2014-15 Audited Financial Statements

Proposed Board Recommendation

I move that the Board approves the 2014-15 Audited Financial Statements included in the board agenda, item II.B.

Background

The independent financial audit report is required in accordance with Education Code Section 41020 and 47605(m). Charter schools must submit the independent financial audit report to their authorizing agencies, county superintendent of schools, California Department of Education, and the State Controller's office no later than December 15, 2015.

Name of Staff Originator: Oswaldo Diaz, Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Magnolia Educational & Research Foundation and Affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and Affiliates, which are comprised of the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 MERF and Affiliate'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 MERF and Affiliate'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MERF and Affiliates as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise MERF and Affiliate's basic financial statements. The supplementary information such as the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of MERF and Affiliate'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 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 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 MERF and Affiliate's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 10,173,244
Restricted cash and cash equivalents	998,292
Accounts receivable	4,170,911
Prepaid expenses and other current assets	29,854
Total Current Assets	<u>15,372,301</u>

Non-Current Assets:

Debt issue costs, net	126,849
Security deposits	110,561
Fixed assets	10,716,608
Less: accumulated depreciation	<u>1,795,398</u>
Total Non-Current Assets	<u>9,158,620</u>
Total Assets	<u>\$ 24,530,921</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$ 2,479,895
Deferred revenue	445,725
Current portion of long-term obligations	244,392
Total Current Liabilities	<u>3,170,012</u>

Long-Term Obligations:

Non-current portion of long-term obligations	<u>8,263,038</u>
Total Liabilities	<u>11,433,050</u>

NET ASSETS

Unrestricted	<u>13,097,871</u>
Total Net Assets	<u>13,097,871</u>
Total Liabilities and Net Assets	<u>\$ 24,530,921</u>

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

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015**

REVENUES

State apportionments	\$ 26,635,709
Federal revenue	2,425,080
Other State revenue	4,313,775
Rent revenue	447,519
Local revenue	535,375
Total Revenues	<u>\$ 34,357,458</u>

EXPENSES

Program services:	
Salaries and benefits	\$ 19,967,246
Student services	2,190,954
Materials and supplies	932,131
Student nutrition	1,182,504
Other expenses	300,509
Occupancy	-
Subtotal	<u>24,573,344</u>

Management and general:

Depreciation	286,341
Occupancy	2,669,178
Operating expenses	3,668,367
Interest	8,485
Subtotal	<u>6,632,371</u>
Total Expenses	<u>31,205,715</u>

CHANGE IN NET ASSETS	3,151,743
NET ASSETS, BEGINNING OF YEAR	<u>9,946,128</u>
NET ASSETS, END OF YEAR	<u>\$ 13,097,871</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 3,151,743
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	286,341
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	539,884
Pledge receivable	150,000
Prepaid expenses and other current assets	(29,854)
Security deposits	162,823
Increase in liabilities	
Accounts payable and accruals	246,589
Deferred revenue	116,704
Net Cash Provided by Operating Activities	<u>4,624,230</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	(627,399)
Change to capital assets, net	(21,298)
Net Cash Used by Investing Activities	<u>(648,697)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	(46,890)
Proceeds from long-term debt obligation	86,589
Cash restricted to meet debt obligation	(998,292)
Net Cash Provided by Financing Activities	<u>(958,593)</u>

NET INCREASE IN CASH	<u>3,016,940</u>
CASH AND CASH EQUIVALENTS,	
BEGINNING OF YEAR	<u>7,156,304</u>
CASH AND CASH EQUIVALENTS,	
END OF YEAR	<u>\$ 10,173,244</u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 8,485</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2015, MERF operated eleven Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,790 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 charter schools offer the following programs, which are mostly free of charge:

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

The charter schools operate under the approval of the California State Board of Education, Santa Clara County Office 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

MPM Sherman Way, LLC

Magnolia Educational & Research Foundation, (MERF), formed the MPM Sherman Way, 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 Charter Schools 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 the MERF. MERF is the sole member of the LLC.

Joint Powers Agency and Risk Management Pools

Magnolia Science Academy Charter Schools are associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of MERF. Additional information is presented in Note 14 to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MERF are described below to enhance the use of the consolidated financial statements to the reader.

Financial Statement Presentation

MERF is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. MERF had no temporarily or permanently restricted net assets, as of June 30, 2015. In addition, MERF is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or when the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions". MERF had temporarily restricted net assets of \$2,753,626 at June 30, 2015. The LLC had no temporarily or permanently restricted net assets at June 30, 2015.

In-kind contributions are recorded at their estimated fair values at the date of donation. Donated services are recorded if they create or enhance non-financial assets or require a specialized skill that MERF would otherwise need to purchase. As of June 30, 2015, no in-kind contributions of services were received.

Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which generally require revenue recognition upon incurrence of expenses related to the specified services. Deferred revenue is recorded to the extent cash received on specific grants exceeds qualified expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Income Taxes

MERF is a 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 a public charity described in Section 509(a)(1) Type 1 supporting organizations and is 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 statute of limitations for Federal and California State purposes is generally three and four years, respectively.

MERF 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 consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. MERF management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, MERF considers all highly liquid investments available for current use with an initial maturity of three months or less to be considered as cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management had determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by MERF Headquarters to each individual charter school and reimbursement for those resources from each individual charter school to MERF Headquarters.

Fixed Assets

It is MERF's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Building and leasehold improvements, furniture, and equipment are depreciated using the straight-line method, from two to 30 years. Depreciation expense for the year ended June 30, 2015, was \$286,341.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of MERF and the LLC.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The LLC does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used. MERF and the LLC do not have permanently restricted net assets.

Consolidation

The consolidated financial statements include the accounts of MERF, the LLC, and all MSA charter schools. All significant intra-company accounts and transactions have been eliminated in consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 8,182,558</u>	<u>\$ 9,720,685</u>

The majority of MERF's cash is held in bank accounts, which are subject to federally insured limits of \$250,000. MERF has not experienced any losses in such accounts. At June 30, 2015, MERF had \$9,470,685 in excess of FDIC insured limits in bank accounts.

NOTE 4 - RESTRICTED CASH AND CASH EQUIVALENTS

At June 30, 2015, cash held for restricted purposes consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Facility reserve	<u>\$ 998,292</u>	<u>\$ 998,292</u>

NOTE 5 - INVESTMENTS

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Magnolia Science Academy San Diego

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
San Diego County Treasury Investment Pool	<u>\$ 102,156</u>	<u>\$ 102,103</u>

Magnolia Science Academy Santa Ana

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
Orange County Treasury Investment Pool	<u>\$ 68,678</u>	<u>\$ 68,550</u>

Deposits with county treasurer are an external investment pool sponsored by the County of San Diego and Orange, respectively. County deposits are not required to be categorized. The pools provided the fair value for these deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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 charter schools 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. The charter schools manage exposure to interest rate risk by investing in the County Pool.

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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. MERF did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Magnolia Science Academy San Diego

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 102,103	253

Magnolia Science Academy Santa Ana

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 68,550	278

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 2,501,465
Federal receivable	556,876
State receivable	174,872
Due From LACOE	360,947
Local receivable	415,598
Lottery	161,153
Total Accounts Receivable	\$ 4,170,911

Revenue

MERF received 94 percent of its revenue in the form of fees and grants from government programs for the year ended June 30, 2015. The balance due from those programs accounted for 96 percent of accounts receivable at June 30, 2015. Without these sources of revenue, MERF would have difficulty maintaining its operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Land	\$ 1,386,754
Building improvements	3,134,064
Leasehold improvements	402,722
Computer and equipment	1,962,040
Work in progress	<u>3,831,028</u>
Subtotal	10,716,608
Less: accumulated depreciation	<u>(1,795,398)</u>
Total Fixed Assets	<u>\$ 8,921,210</u>

During the year ended June 30, 2015, \$286,341 was charged to depreciation expense.

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2015, consisted of the following:

Salaries and benefits	\$ 301,318
Vendor payables	640,187
Other payable	<u>1,538,390</u>
Total Accounts Payable and Accruals	<u>\$ 2,479,895</u>

NOTE 10 - LONG-TERM OBLIGATIONS

At June 30, 2015, MERF's long-term obligations summary is as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
Bonds payable	\$ 6,020,000	\$ -	\$ -	\$ 6,020,000	\$ 70,000
Revolving loans	2,447,731	-	46,890	2,400,841	116,666
Notes payable	-	86,589	-	86,589	57,726
Total	<u>\$ 8,467,731</u>	<u>\$ 86,589</u>	<u>\$ 46,890</u>	<u>\$ 8,507,430</u>	<u>\$ 244,392</u>

California School Finance Authority (CSFA) School Facility Revenue Bonds

In June 2004, 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 August 2044, with monthly interest payments due commencing July 1, 2044. At June 30, 2015, the principal balance outstanding was \$6,020,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

The bonds mature through 2044 as follows:

<u>Repayment Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 70,000	\$ 372,896	\$ 442,896
2017	80,000	362,887	442,887
2018	85,000	357,287	442,287
2019	90,000	351,337	441,337
2020	100,000	345,037	445,037
2021-2025	580,000	1,639,436	2,219,436
2026-2030	760,000	1,458,835	2,218,835
2031-2035	1,260,000	1,202,035	2,462,035
2036-2040	1,460,000	967,197	2,427,197
2041-2044	1,535,000	247,186	1,782,186
Total	<u>\$ 6,020,000</u>	<u>\$ 7,304,133</u>	<u>\$ 13,324,133</u>

Revolving Loans

At June 30, 2015, MERF's revolving loans are as follows:

Magnolia Science Academy 2

Magnolia Science Academy 2 applied for, and was accepted into, the California School Finance Authority Charter School Revolving Loan Program. The Charter School received a loan in the amount of \$100,000. The loan bears an interest rate of 0.24 percent. The terms of the loan require four annual payments of \$25,000 over the next four years and are to be withheld from the apportionment payments. The maturity date is June 30, 2017.

Future payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2016	\$ 25,000
2017	25,000
Total	<u>\$ 50,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Magnolia Science Academy Santa Ana

Magnolia Science Academy Santa Ana received unsecured revolving loan payable to the California Department of Education totaling \$150,000 on November 30, 2012. The loan balance as of June 30, 2015, was \$75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2016	\$ 25,000
2017	25,000
2018	25,000
Total	<u>\$ 75,000</u>

Magnolia Science Academy 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 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2015, was \$2,015,698.

Magnolia Science Academy San Diego

MSA SD Charter School 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 the Charter School's State School Fund Apportionments. The outstanding loan balance as of June 30, 2015, was \$151,806.

Magnolia Educational & Research Foundation

In March 2010, Pacific Technology School - Orangevale received an unsecured revolving loan payable to the California Department of Education totaling \$250,000 on March 23, 2010. The loan balance as of March 1, 2015, was \$100,665. Due to the closure of the school, MERF has assumed the repayment of the loan, and has worked out a payment plan with the California School Finance Authority.

In March 2010, the California Department of Education (CDE) awarded a \$250,000 loan to Pacific Technology School - Orangevale (CDS Code: 09-76596-0119529) for a five-year tenet through the Charter School Revolving Loan Fund Program (CSRLF). Effective July 1, 2013, Assembly Bill 86 (Chapter 48, Statutes of 2013) authorized the transfer of the administration of the Charter School Revolving Loan Fund from the CDE to the California School Finance Authority (Authority). The current portion of long-term obligation as of June 30, 2015, is \$66,666.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Pacific Technology School Orangevale Closure

Pacific Technology School - Orangevale (PTS- Orangevale) closed in June 2013. Due to the closure, the school was unable to pay their fourth year through the intercept based on the original agreement. To repay the PTS-Orangevale revolving loan, MERF has been in communication with the California School Finance Authority to arrange a payment schedule of the remaining loan totaling \$100,000. The repayment schedule will be accordance to the document provided by the California School Finance Authority, and will include 18 monthly payments of \$5,593 that includes principal and interest.

Chrome Books

The Charter School entered into a capital lease to purchase 450 chrome books for \$128,744. The terms of the loan require 36 monthly payments of \$4,276 with an interest rate of 8.00 percent and a maturity date of June 30, 2017. The balance outstanding as of June 30, 2015, is \$86,589. The current portion of the long-term obligation is \$57,726.

NOTE 11 - OPERATING LEASES

Total rental and facility expenses were \$2,716,986 for year ended June 30, 2015. Future rental and facility expenses are as follows:

Fiscal Year Ending	Future Lease Commitments
2016	\$ \$ 1,933,592
2017	292,300
2018	298,300
2019	304,300
2020	310,300
Total	<u>\$ 1,467,590</u>

NOTE 12 - FAIR VALUE FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of MERF financial instruments as of June 30, 2015 are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 10,173,244	\$ 10,173,244
Restricted cash and cash equivalents	998,292	998,292
Revolving loans	2,400,841	2,400,841
Notes payable	86,589	86,589
Bonds payable	6,020,000	6,020,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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 the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$1,001,421.

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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$94,508.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - 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 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, Magnolia Science Academy Charter Schools made payments of \$344,113 to CharterSAFE for services received. At June 30, 2015, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 16 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements from the balance sheet date through _____, 2015, which is the date the consolidated 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 consolidated financial statements.

Purchase of Property

In October 2015, MERF purchased the school site located at 18228 Sherman Way, Los Angeles, California for \$3.8 million.

Facilities Agreements

Magnolia Science Academy Santa Clara has renewed its facilities use lease agreement in Santa Clara, California. The terms of the new lease began August 1, 2015, and expire on July 31, 2018. The Charter School will make monthly rent and maintenance expense payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Magnolia Science Academy San Diego has renewed its Facilities Use Permit Agreement with SDUSD. The terms of the new lease began July 1, 2015, and expire on June 30, 2020, and are calculated at two percent of revenues of the Charter School in accordance with substantially rent-free facilities under Proposition 39. The Charter School will make ten equal monthly rent and maintenance expense payments.

SUPPLEMENTARY INFORMATION

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 577,268
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	1,000,056
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	3,367
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	13,882
Title III Cluster:			
Title III, Immigrant Education Program	84.365	15146	7,690
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	16,726
Total Title III Cluster			<u>24,416</u>
Title V, Part B - Public Charter Schools Grant Program	84.282	14531	21,000
Total U.S. Department of Education			<u>1,639,989</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	243,866
National School Lunch Program	10.555	13524	541,225
Total U.S. Department of Agriculture			<u>785,091</u>
Total Federal Programs			<u>\$ 2,425,080</u>

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2015

ORGANIZATION

MERF operates eleven schools in California under eleven 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, 2015, the charter schools 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 USD	June 30, 2017	4-12	535
Magnolia Science Academy 2	0906	Los Angeles USD	June 30, 2020	6-12	429
Magnolia Science Academy 3	0917	Los Angeles USD	June 30, 2017	6-12	450
Magnolia Science Academy 4	0986	Los Angeles USD	June 30, 2020	6-12	196
Magnolia Science Academy 5	0987	Los Angeles USD	June 30, 2020	6-12	112
Magnolia Science Academy 6	0988	Los Angeles USD	June 30, 2016	4-8	145
Magnolia Science Academy 7	0989	Los Angeles USD	June 30, 2020	k-6	300
Magnolia Science Academy 8	1236	13379	June 30, 2020	6-12	495
Magnolia Science Academy San Diego	0698	San Diego USD	June 30, 2020	6-9	365
Magnolia Science Academy Santa Ana	0943	CDE	June 30, 2019	6-12	165
Magnolia Science Academy Santa Clara	1116	Santa Clara COE	June 30, 2018	4-9	492

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

	MERF	MSA-1	MSA-2	MSA-3	MSA-4
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 184,383	\$ 1,737,714	\$ 571,069	\$ 183,685	\$ 352,618
Restricted cash and cash equivalents	-	-	-	-	-
Accounts receivable	-	440,019	362,421	360,992	142,430
Intra-company receivable	891,117	-	103,066	307,336	24,822
Prepaid expenses and other current assets	-	-	-	-	-
Total Current Assets	<u>1,075,500</u>	<u>2,177,733</u>	<u>1,036,556</u>	<u>852,013</u>	<u>519,870</u>
Non-Current Assets:					
Debt issue cost, net	-	-	-	-	-
Security deposits	1,525	39,035	-	-	-
Fixed assets	134,513	658,685	198,585	136,648	117,493
Less: accumulated depreciation	<u>107,684</u>	<u>583,322</u>	<u>139,376</u>	<u>128,230</u>	<u>91,160</u>
Total Non-Current Assets	<u>28,354</u>	<u>114,398</u>	<u>59,209</u>	<u>8,418</u>	<u>26,333</u>
Total Assets	<u>\$ 1,103,854</u>	<u>\$ 2,292,131</u>	<u>\$ 1,095,765</u>	<u>\$ 860,431</u>	<u>\$ 546,203</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and accruals	\$ 200,348	\$ 64,913	\$ 51,506	\$ 63,602	\$ 70,707
Intra-company payable	897,894	-	-	-	-
Deferred revenue	88,785	-	-	-	-
Current portion of long-term obligations	<u>66,666</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>1,253,693</u>	<u>64,913</u>	<u>76,506</u>	<u>63,602</u>	<u>70,707</u>
Long-Term Obligations:					
Non-current portion of long-term obligations	<u>16,667</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,270,360</u>	<u>64,913</u>	<u>101,506</u>	<u>63,602</u>	<u>70,707</u>
NET ASSETS (DEFICIT)					
Unrestricted	(166,506)	2,227,218	994,259	796,829	475,496
Temporarily restricted	-	-	-	-	-
Total Net Assets (Deficit)	<u>(166,506)</u>	<u>2,227,218</u>	<u>994,259</u>	<u>796,829</u>	<u>475,496</u>
Total Liabilities and Net Assets	<u>\$ 1,103,854</u>	<u>\$ 2,292,131</u>	<u>\$ 1,095,765</u>	<u>\$ 860,431</u>	<u>\$ 546,203</u>

See accompanying note to supplementary information.

MSA-5	MSA-6	MSA-7	MSA-8	MSA-SD	MSA-SA	MSA-SC
\$ 925,625	\$ 806,785	\$ 924,010	\$ 2,421,557	\$ 382,157	\$ 140,106	\$ 170,245
-	-	-	-	118,998	432,732	-
66,084	229,670	502,994	422,414	248,652	578,641	816,594
180,692	-	133,118	148,920	-	-	-
-	8,000	-	-	-	19,000	2,854
<u>1,172,401</u>	<u>1,044,455</u>	<u>1,560,122</u>	<u>2,992,891</u>	<u>749,807</u>	<u>1,170,479</u>	<u>989,693</u>
-	-	-	-	-	-	-
-	-	4,000	-	-	27,000	39,001
111,918	62,699	110,112	39,399	586,778	3,788,424	250,536
91,406	62,699	59,072	17,417	258,217	94,867	81,587
20,512	-	55,040	21,982	328,561	3,720,557	207,950
<u>\$ 1,192,913</u>	<u>\$ 1,044,455</u>	<u>\$ 1,615,162</u>	<u>\$ 3,014,873</u>	<u>\$ 1,078,368</u>	<u>\$ 4,891,036</u>	<u>\$ 1,197,643</u>
\$ 318,371	\$ 376,769	\$ 764,560	\$ 182,680	\$ 82,466	\$ 71,456	\$ 232,517
-	181,177	-	-	-	330,000	380,000
-	-	-	-	2,940	354,000	-
-	-	-	-	-	25,000	57,726
<u>318,371</u>	<u>557,946</u>	<u>764,560</u>	<u>182,680</u>	<u>85,406</u>	<u>780,456</u>	<u>670,243</u>
-	-	-	-	151,806	2,090,702	28,863
<u>318,371</u>	<u>557,946</u>	<u>764,560</u>	<u>182,680</u>	<u>237,212</u>	<u>2,871,158</u>	<u>699,106</u>
874,542	486,509	850,602	2,832,193	722,158	1,587,146	498,537
-	-	-	-	118,998	432,732	-
<u>874,542</u>	<u>486,509</u>	<u>850,602</u>	<u>2,832,193</u>	<u>841,156</u>	<u>2,019,878</u>	<u>498,537</u>
<u>\$ 1,192,913</u>	<u>\$ 1,044,455</u>	<u>\$ 1,615,162</u>	<u>\$ 3,014,873</u>	<u>\$ 1,078,368</u>	<u>\$ 4,891,036</u>	<u>\$ 1,197,643</u>

CONSOLIDATING STATEMENT OF FINANCIAL POSITION, *Continued*
JUNE 30, 2015

	LLC	Elimination	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,373,290	\$ -	\$ 10,173,244
Restricted cash and cash equivalents	446,562	-	998,292
Accounts receivable	-	-	4,170,911
Intra-company receivable	-	(1,789,071)	-
Prepaid expenses and other current assets	-	-	29,854
Total Current Assets	<u>1,819,852</u>	<u>(1,789,071)</u>	<u>15,372,301</u>
Non-Current Assets:			
Debt issue cost, net	126,849	-	126,849
Security deposits	-	-	110,561
Fixed assets	4,520,818	-	10,716,608
Less: accumulated depreciation	80,361	-	1,795,398
Total Non-Current Assets	<u>4,567,306</u>	<u>-</u>	<u>9,158,620</u>
Total Assets	<u>\$ 6,387,158</u>	<u>\$ (1,789,071)</u>	<u>\$ 24,530,921</u>
LIABILITIES			
Current Liabilities:			
Accounts payable and accruals	\$ -	\$ -	\$ 2,479,895
Intra-company payable	-	(1,789,071)	-
Deferred revenue	-	-	445,725
Current portion of long-term obligations	70,000	-	244,392
Total Current Liabilities	<u>70,000</u>	<u>(1,789,071)</u>	<u>3,170,012</u>
Long-Term Obligations:			
Non-current portion of long-term obligations	5,950,000	-	8,263,038
Total Liabilities	<u>6,020,000</u>	<u>(1,789,071)</u>	<u>11,433,050</u>
NET ASSETS (DEFICIT)			
Unrestricted	367,158	-	12,546,141
Temporarily restricted	-	-	551,730
Total Net Assets (Deficit)	<u>367,158</u>	<u>-</u>	<u>13,097,871</u>
Total Liabilities and Net Assets	<u>\$ 6,387,158</u>	<u>\$ (1,789,071)</u>	<u>\$ 24,530,921</u>

See accompanying note to supplementary information.

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2015

	<u>MERF</u>	<u>MSA-1</u>	<u>MSA-2</u>	<u>MSA-3</u>	<u>MSA-4</u>
CHANGES IN UNRESTRICTED NET ASSETS					
REVENUES					
State apportionments	\$ -	\$ 4,108,987	\$ 3,336,116	\$ 3,406,316	\$ 1,703,922
Federal revenue	-	600,269	222,128	490,995	138,952
Other State revenue	-	749,565	393,474	580,951	239,123
Rent revenue	-	-	-	-	-
Local revenue	4,610,148	71,342	53,812	16,668	30,265
Total Revenues	<u>4,610,148</u>	<u>5,530,163</u>	<u>4,005,530</u>	<u>4,494,930</u>	<u>2,112,262</u>
EXPENSES					
Program services:					
Salaries and benefits	1,490,317	2,756,741	2,190,290	2,345,482	1,036,532
Student services	29,922	368,240	320,550	352,586	153,122
Materials and supplies	29,191	190,130	127,386	142,912	22,240
Student nutrition	6,251	264,309	75,779	315,244	52,263
Other expenses	44,863	29,459	16,738	28,199	4,885
Subtotal	<u>1,600,544</u>	<u>3,608,879</u>	<u>2,730,743</u>	<u>3,184,423</u>	<u>1,269,042</u>
Management and general:					
Depreciation	36,278	5,820	7,720	22,673	4,264
Management fee	-	1,013,451	757,224	762,632	237,895
Occupancy	154,681	676,885	140,120	420,651	146,543
Operating expenses	1,432,967	221,826	214,576	541	217,380
Interest	3,685	-	296	72	234
Subtotal	<u>1,627,611</u>	<u>1,917,982</u>	<u>1,119,936</u>	<u>1,206,569</u>	<u>606,316</u>
Total Expenses	<u>3,228,155</u>	<u>5,526,861</u>	<u>3,850,679</u>	<u>4,390,992</u>	<u>1,875,358</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>1,381,993</u>	<u>3,302</u>	<u>154,851</u>	<u>103,938</u>	<u>236,904</u>
NET ASSETS (DEFICIT),					
BEGINNING OF YEAR	<u>(1,548,499)</u>	<u>2,223,916</u>	<u>839,408</u>	<u>692,891</u>	<u>238,592</u>
NET ASSETS , END OF YEAR	<u>\$ (166,506)</u>	<u>\$ 2,227,218</u>	<u>\$ 994,259</u>	<u>\$ 796,829</u>	<u>\$ 475,496</u>

See accompanying note to supplementary information.

MSA-5	MSA-6	MSA-7	MSA-8	MSA-SD	MSA-SA	MSA-SC
\$ 780,024	\$ 1,155,329	\$ 2,049,711	\$ 3,611,558	\$ 2,243,691	\$ 1,155,757	\$ 3,084,298
78,761	105,101	249,512	298,515	93,377	89,864	57,606
169,416	221,875	618,969	637,876	361,721	210,696	130,109
-	-	-	-	-	-	-
6,657	29,582	60,292	60,207	99,896	29,745	76,909
1,034,858	1,511,887	2,978,484	4,608,156	2,798,685	1,486,062	3,348,922
619,946	686,248	1,344,404	2,591,882	1,834,111	993,530	2,077,763
84,723	52,787	166,133	243,914	132,745	231,343	54,889
18,350	25,724	135,999	139,340	27,733	27,013	46,113
16,246	30,234	139,482	183,583	38,481	37,922	22,710
3,878	9,755	58,525	52,716	10,249	9,483	31,759
743,143	804,748	1,844,543	3,211,435	2,043,319	1,299,291	2,233,234
14,927	8,461	25,417	6,659	37,442	24,823	11,496
103,749	-	450,015	872,216	214,224	-	198,742
99,063	96,000	228,598	-	-	206,499	500,138
85,552	180,631	177,687	573,111	107,772	182,749	273,575
3,396	-	135	-	82	460	125
306,687	285,092	881,852	1,451,986	359,520	414,531	984,076
1,049,830	1,089,840	2,726,395	4,663,421	2,402,839	1,713,822	3,217,310
(14,972)	422,047	252,089	(55,265)	395,846	(227,760)	131,612
889,514	64,462	598,513	2,887,458	445,310	2,247,638	366,925
\$ 874,542	\$ 486,509	\$ 850,602	\$ 2,832,193	\$ 841,156	\$ 2,019,878	\$ 498,537

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS,
Continued
JUNE 30, 2015

	<u>LLC</u>	<u>Elimination</u>	<u>Total</u>
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUES			
State apportionments	\$ -	\$ -	\$ 26,635,709
Federal revenue	-	-	2,425,080
Other State revenue	-	-	4,313,775
Rent revenue	447,519	-	447,519
Local revenue	-	(4,610,148)	535,375
Total Revenues	<u>447,519</u>	<u>(4,610,148)</u>	<u>34,357,458</u>
EXPENSES			
Program services:			
Salaries and benefits	-	-	19,967,246
Student services	-	-	2,190,954
Materials and supplies	-	-	932,131
Student nutrition	-	-	1,182,504
Other expenses	-	-	300,509
Subtotal	<u>-</u>	<u>-</u>	<u>24,573,344</u>
Management and general:			
Depreciation	80,361	-	286,341
Management fee	-	(4,610,148)	-
Occupancy	-	-	2,669,178
Operating expenses	-	-	3,668,367
Interest	-	-	8,485
Subtotal	<u>80,361</u>	<u>(4,610,148)</u>	<u>6,632,371</u>
Total Expenses	<u>80,361</u>	<u>(4,610,148)</u>	<u>31,205,715</u>
CHANGE IN UNRESTRICTED NET ASSETS	<u>367,158</u>	<u>-</u>	<u>3,151,743</u>
NET ASSETS (DEFICIT),			
BEGINNING OF YEAR	-	-	9,946,128
NET ASSETS , END OF YEAR	<u>\$ 367,158</u>	<u>\$ -</u>	<u>\$ 13,097,871</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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 the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Local Education Agency Organization Structure

This schedule provides information about the charter schools 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 and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

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**

Board of Directors
Magnolia Educational & Research Foundation and Affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, 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 consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and Affiliates as of and for the year ended June 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise MERF and Affiliate's consolidated financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MERF and Affiliate'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MERF and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of MERF and Affiliate'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 MERF and Affiliate's consolidated 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 MERF and Affiliate's consolidated financial statements are free from material misstatement, we performed tests of MERF and Affiliate's 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 the consolidated 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 MERF and Affiliates in a separate letter dated _____, 2015.

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 MERF and Affiliate's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MERF and Affiliate's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Magnolia Educational & Research Foundation and Affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and Affiliates, major Federal programs for the year ended June 30, 2015. MERF and Affiliate'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 requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MERF and Affiliate'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 MERF and Affiliate'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 MERF and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, MERF and Affiliates 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, 2015.

Report on Internal Control Over Compliance

Management of MERF and Affiliates 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 MERF and Affiliate'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 OMB Circular A-133, 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 MERF and Affiliate'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Special Education Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low Income and Neglected</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Educational & Research Foundation (MERF) for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of MERF.

Cash Disbursements - MERF

Observation

It was noted that there was no receipt for one of 16 items tested. The item in question was \$49.

Recommendation

All disbursements should be accompanied by invoices or receipts and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received.

Corrective Action Plan

The new third-party vendor handling the payments has procedures to collect all supporting doc and has a form for any lost invoices.

Cash Collections - MERF

Observations

1. Backup provided by sites tested was the "Bank Deposit Slip" and a "Cash and Checks Deposit Form", which sorts deposits by check and cash columns. The "Cash and Checks Deposit Form" is signed by the School Office Manager and the School Principal. Additionally, copies of some of the checks collected were provided and no backup for cash collections.
2. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
3. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were ten stale-dated checks totaling \$6,085.41. Five of the items are from calendar year 2011 and the other five are from calendar year 2014.
4. Three outstanding "credits" from 2009 through 2011 totaling \$98,615 were noted. As of June 30, 2015, the same amount was outstanding.

Recommendation

1. The site front office should maintain the master receipt log or a receipt book and backup from individuals collecting funds on behalf of the charter school that would provide an audit trail that will enable MERF in the verification that all monies received, and subsequently, deposited are intact and in a timely manner.
2. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.
3. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".
4. It is recommended that a review of the bank reconciliation be performed monthly and outstanding items be investigated and cleared. Outstanding credits from 2009 through 2011 overstate cash by \$98,615. Amount should be credited to cash and debited to fund balance in order to reduce overstated cash.

Corrective Action Plan.

1. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.
2. A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.
3. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.
4. The items are being reviewed and will be cleared appropriately to the correct charter school after supporting documents are validated.

General ledger system MERF

Observations - MERF

1. The Revolving Loan transferred and assumed by MERF was not recorded on the June 30, 2015, on the general ledger for Pacific Technology School's outstanding balance remaining in the amount of \$100,665. A proposed audit adjustment has been prepared to record the activity for 2014-15.
2. Magnolia Properties Management Inc.'s activities, which include the California School Finance Authority (CSFA) Facility Revenue Bonds, have not been recorded monthly in the general ledger system.

Recommendation

1. MERF should adjust the 2015-16 beginning balance to reflect the audit adjustment posted for recording the revolving loan balance.
2. Magnolia Properties Management Inc.'s financial activity should be monitored monthly and recorded on the general ledger system for internal reporting to the Board.

Corrective Action Plans

1. MERF currently has the payments being made in the ledgers and will be posting the audit adjustment to record the remaining outstanding revolving debt.
2. MERF will be providing a monthly reconciliation of the activity from the Bank of New York accounts to be recorded by the back office provider in 2015-16. Prior year activity has been summarized on an excel system and reconciled monthly. All activity has been consolidated in the financial statements as of June 30, 2015.

Fixed Assets - MERF

Observation

It was noted within the recording and monitoring of the fixed assets of MSA charter schools that a tracking system was not properly maintained and up to date during the school year. In testing the validation of the fixed assets schedule, the charter general ledger amounts did not agree to the amounts recorded on the unaudited actuals prepared in August 2015. Additionally, the tracking system has been subsequently implemented to monitor the purchases and deletions of capital assets (whether sold or disposed).

Recommendation

The charter schools need to continue to keep a current system to monitor and verify that all reported assets are included in the fixed assets schedule and should assign an individual to maintain and monitor the fixed assets schedule. A reconciliation of construction in progress accounts should be completed at least quarterly during the year to capture all completed projects as of the date of completion. Additionally, a checking of existing fixed assets should be conducted for all MSA charter school locations.

Corrective Action Plan

MERF is now using a fixed asset system provided by the back office provider for the 2015-16 year. Monthly reports are being reviewed to double check the posting of additions and deletions.

Cash Collections - MSA

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.

Cash Disbursements - MSA

Observation

It was noted that an "employee" (Teacher) of the charter school was paid outside of the payroll process as an "independent contractor" for a "home visit".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultant contracts to ensure the staff is aware of the IRS regulations.

Corrective Action Plan

Accounting staff are aware that employees need to be paid through the payroll process and not through the disbursements process.

Payroll - MSA

Observation

It was noted that one of the employees tested received lower pay than what is on the May 2, 2014, Board approved pay scale for the employee's position.

Recommendation

A procedure should be in place to make sure that employee wages are being processed accurately through the personnel and payroll systems. Differences in pay should be investigated and resolved by paying employees the amount owed based on the May 2, 2014, Board approved pay scale. The charter schools should be aware that in case of retro payment, there may need to be a revision to the employee's W-2 (Form W-2C) and W-3 transmittal (Form W-3C); as well as Form 941X for quarter(s) affected among other necessary adjustments/corrections.

Corrective Action Plan

The charter school has reviewed the calculations and made corrections as required. The new process implemented for payroll has eliminated the manual system to an automated system starting 2016.

Cash Collections - MSA 2

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were four stale-dated checks totaling \$32,307.

Recommendation

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.

Cash Collections - MSA 3

Observation

1. Teachers collecting funds at the charter schools do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup.
2. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendations

1. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When impractical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds receipted.
2. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plans

1. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.
2. A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Disbursements - MSA 3

Observation

It was noted that an "employee" of the charter school was paid outside of the payroll process as an "independent contractor" for "referee services".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultation contracts to ensure the staff is aware of the IRS regulations. In addition, the charter school should perform a review of the procedures for determining who receives a Form 1099 to ensure all 1099's are properly issued.

Corrective Action Plan

Accounting staff is aware that employees are to be paid through the payroll process and not through the disbursements process.

Cash Collections - MSA 4

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.

Cash Collections - MSA 5

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 6

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 7

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 8

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were three stale-dated checks totaling \$2,503.
3. Teachers collecting funds at the charter school do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup. Additionally, cash count sheets are not consistently being signed by a reviewer.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".
3. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When impractical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds received.

Corrective Action Plans

1. MERF confirmed that the months tested related to a transition period in which review of bank reconciliations was not being performed.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.
3. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

Cash Collections - MSA SA

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were two stale-dated checks totaling \$361.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review future checks outstanding.

Cash Collections - MSA SC

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.

Payroll - MSA SC

Observation

The principal/management signed "At-Will Employment agreements" was not provided for one of six employees tested

Recommendation

A procedure should be in place to make sure that the "At-Will Employment agreements" are being reviewed and approved by the site principal or other authorized management prior to employment.

Corrective Action Plan

The charter school has been able to locate a number of "At-Will Employment agreements"; however, this one was misplaced due to transition of records. The Principal has requested to upload all future agreements into CoolSIS for review by Human Resources.

Cash Collections - MSA SD

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,737,714
Accounts receivable	440,019
Total Current Assets	<u>2,177,733</u>

Non-Current Assets:

Security deposits	39,035
Fixed assets	658,685
Less: accumulated depreciation	<u>583,322</u>
Total Non-Current Assets	<u>114,398</u>
Total Assets	<u>\$ 2,292,131</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$ 64,913
Total Current Liabilities	<u>64,913</u>

NET ASSETS

Unrestricted	<u>2,227,218</u>
Total Net Assets	<u>2,227,218</u>
Total Liabilities and Net Assets	<u>\$ 2,292,131</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 4,108,987
Federal revenue	600,269
Other State revenue	749,565
Local revenue	71,342
Total Revenues	<u>5,530,163</u>

EXPENSES

Program services:

Salaries and benefits	2,756,741
Student services	368,240
Materials and supplies	190,130
Student nutrition	264,309
Other expenses	29,459

Subtotal	<u>3,608,879</u>
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Management and general:

Depreciation	5,820
Management fee	1,013,451
Occupancy	676,885
Operating expenses	221,826

Subtotal	<u>1,917,982</u>
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Total Expenses	<u>5,526,861</u>
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CHANGE IN UNRESTRICTED NET ASSETS	<u>3,302</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,223,916</u>
NET ASSETS, END OF YEAR	<u>\$ 2,227,218</u>

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 3,302
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation expense	5,820
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	583,204
Increase (Decrease) in liabilities	
Accounts payable and accruals	<u>(232,740)</u>
Net Cash Provided by Operating Activities	<u>359,586</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Change to capital assets, net	<u>(21,298)</u>
Net Cash Provided by Investing Activities	<u>(21,298)</u>

NET INCREASE IN CASH	<u>338,288</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,399,426</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,737,714</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (Charter School) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 535 students. The Charter School 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 renewed the charter agreement in 2012 for a period of five years ending in 2017. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 10 to the financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets, as of June 30, 2015. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School are a non-profit 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. Income tax returns for 2011 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The Charter School have 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School' policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$5,820.

Deferred Revenue

Deferred revenue arises when resources are received by the Charter School prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when the Charter School have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School' program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 1,737,714</u>	<u>\$ 1,924,499</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had a balance of \$1,875,004 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 356,958
Federal receivable	54,892
Local receivable	<u>28,169</u>
Total Accounts Receivable	<u>\$ 440,019</u>

NOTE 5 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 374,818
Building improvements	<u>283,867</u>
Subtotal	658,685
Less: accumulated depreciation	<u>(583,322)</u>
Total Fixed Assets	<u>\$ 75,363</u>

During the year ended June 30, 2015, \$5,820 was charged to depreciation expense.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 22,515
Vendor payables	42,398
Total Accounts Payable	<u>\$ 64,913</u>

NOTE 7 - OPERATING LEASES

The Charter School leases its facilities in Reseda, California, under an operating lease until July 31, 2017, with monthly payments of \$37,293. The School also leases its gymnasium under an operating lease until July 31, 2017, with a monthly payment of \$11,773. Total rent and repair expense during the year ended June 30, 2015, was \$592,680.

As of October 15, 2015, the Charter School has completed a purchase on the Reseda school facilities. See Note 12 Subsequent Events for further information.

The future minimum lease commitments are as follows:

MSA 1	Facility Lease Payment	Gymnasium Payment	Total Operating Leases
<u>Fiscal Year</u> 2016	<u>\$ 130,526</u>	<u>\$ 41,206</u>	<u>\$ 171,732</u>

NOTE 8 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, were \$1,013,451.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2014, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	8.15%	8.15%
Required employee contribution rate	8.88%	8.88%
Required employer contribution rate	5.95%	5.95%
Required State contribution rate		

Co

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, 2015, are presented above and the Charter School's total contributions were \$151,396.

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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

Co

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$26,917.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Academies. These payments consist of State General Fund contributions to CalSTRS in the amount of \$87,822 (5.679 percent of the Charter School' 2012-2013 creditable compensation subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 10 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 The Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$49,680 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 11 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. As of September 2015, the Office of Internal Investigation has started a review of prior year activity. 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 has no outstanding claims or litigation.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 12 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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.

Purchase of Property

In October 2015, Magnolia Educational & Research Foundation (MERF) purchased the school site located at 18228 Sherman Way, Los Angeles, California for \$3.8 million.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 103,140
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	196,858
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	1,898
Title III Cluster:			
Title III, Immigrant Education Program	84.365	15146	1,490
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	11,846
Total Title III Cluster			<u>13,336</u>
Total U.S. Department of Education			<u>315,232</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	103,769
National School Lunch Program	10.555	13524	181,268
Total Child Nutrition Cluster			<u>285,037</u>
Total U.S. Department of Agriculture			<u>285,037</u>
Total Federal Programs			<u>\$ 600,269</u>

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy (Charter Number 0438) was granted on July 1, 2002, by the Los Angeles Unified School District. The Charter School operates one school, grades four through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	81.52	80.95
Seventh and eighth	174.94	174.09
Ninth through twelfth	255.40	254.23
Total Regular ADA	<u>511.86</u>	<u>509.27</u>
Classroom based ADA		
Sixth	81.52	80.95
Seventh and eighth	174.94	174.09
Ninth through twelfth	255.40	254.23
Total Classroom based ADA	<u>511.86</u>	<u>509.27</u>

The Charter School did not operate a non-classroom based Instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2014-15 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			70,723	179	N/A	Complied
Grade 7			70,723	179	N/A	Complied
Grade 8			70,723	179	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			70,723	179	N/A	Complied
Grade 10			70,723	179	N/A	Complied
Grade 11			70,723	179	N/A	Complied
Grade 12			70,723	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 2,101,135
Increase (decrease) the fund balance	
Cash	(86,785)
Accounts receivable	24,596
Accumulated depreciation	35,478
Accounts payable	152,794
Balance, June 30, 2015, Audited Financial Statement	<u><u>\$ 2,227,218</u></u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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 the Charter School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Magnolia Science Academy.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Magnolia Science Academy's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Magnolia Science Academy'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 Magnolia Science Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Magnolia Science Academy'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 Charter School'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 Magnolia Science Academy'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 Magnolia Science Academy in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Magnolia Science Academy's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Magnolia Science Academy's (the Charter School) (A California Nonprofit Public Benefit Corporation) major Federal programs for the year ended June 30, 2015. Magnolia Science Academy'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 requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Magnolia Science Academy'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Science Academy'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 Science Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Magnolia Science Academy 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, 2015.

Report on Internal Control Over Compliance

Management of Magnolia Science Academy 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 Science Academy'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 OMB Circular A-133, 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 Science Academy'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) (A California Nonprofit Public Benefit Corporation) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Magnolia Science Academy's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Magnolia Science Academy'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 *2014-2015 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 Magnolia Science Academy'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 Magnolia Science Academy's compliance with those requirements.

Unmodified Opinion

In our opinion, Magnolia Science Academy 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Special Education Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low Income and Neglected</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

FEDERAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.

Cash Disbursements - MSA

Observation

It was noted that an "employee" (Teacher) of the charter school was paid outside of the payroll process as an "independent contractor" for a "home visit".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultant contracts to ensure the staff is aware of the IRS regulations.

Corrective Action Plan

Accounting staff are aware that employees need to be paid through the payroll process and not through the disbursements process.

Payroll - MSA

Observation

It was noted that one of the employees tested received lower pay than what is on the May 2, 2014, Board approved pay scale for the employee's position.

Recommendation

A procedure should be in place to make sure that employee wages are being processed accurately through the personnel and payroll systems. Differences in pay should be investigated and resolved by paying employees the amount owed based on the May 2, 2014, Board approved pay scale. The charter schools should be aware that in case of retro payment, there may need to be a revision to the employee's W-2 (Form W-2C) and W-3 transmittal (Form W-3C); as well as Form 941X for quarter(s) affected among other necessary adjustments/corrections.

Corrective Action Plan

The charter school has reviewed the calculations and made corrections as required. The new process implemented for payroll has eliminated the manual system to an automated system starting 2016.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 2 (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	571,069
Accounts receivable		362,421
Intra-company receivable		103,066
Total Current Assets		<u>1,036,556</u>

Non-Current Assets:

Fixed assets		198,585
Less: accumulated depreciation		139,376
Total Non-Current Assets		<u>59,209</u>
Total Assets	\$	<u>1,095,765</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	51,506
Current portion of long-term obligations		25,000
Total Current Liabilities		<u>76,506</u>

Long-Term Obligations:

Non-current portion of long-term obligations		25,000
Total Liabilities		<u>101,506</u>

NET ASSETS

Unrestricted		<u>994,259</u>
Total Net Assets		<u>994,259</u>
Total Liabilities and Net Assets	\$	<u>1,095,765</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 3,336,116
Federal revenue	222,128
Other State revenue	393,474
Local revenue	<u>53,812</u>
Total Revenues	<u>4,005,530</u>

EXPENSES

Program services:

Salaries and benefits	2,190,290
Student services	320,550
Materials and supplies	127,386
Student nutrition	75,779
Other expenses	<u>16,738</u>

Subtotal	<u>2,730,743</u>
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Management and general:

Depreciation	7,720
Management fee	757,224
Occupancy	140,120
Operating expenses	214,576
Interest	<u>296</u>

Subtotal	<u>1,119,936</u>
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Total Expenses	<u>3,850,679</u>
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CHANGE IN UNRESTRICTED

NET ASSETS	<u>154,851</u>
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NET ASSETS, BEGINNING OF YEAR	<u>839,408</u>
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NET ASSETS, END OF YEAR	<u>\$ 994,259</u>
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The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in unrestricted net assets	\$ 154,851
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	7,720
Changes in operating assets and liabilities:	
Decrease in assets	
Accounts receivable	169,800
Intra-company receivable	20,103
Security deposits	21,310
Increase in liabilities	
Accounts payable and accruals	<u>(91,243)</u>
Net Cash Provided by Operating Activities	<u>282,541</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(41,723)</u>
Net Cash Used by Investing Activities	<u>(41,723)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(24,998)</u>
Net Cash Used by Financing Activities	<u>(24,998)</u>

NET INCREASE IN CASH	215,820
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>355,249</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 571,069</u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 296</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (the Charter School) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 429 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School 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

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$26,572.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net assets of the Magnolia Science Academy 2 consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 571,069</u>	<u>\$ 637,167</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$620,780 in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Federal receivable	\$ 1,474
Due from LACOE	<u>360,947</u>
Total Accounts Receivable	<u>\$ 362,421</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$103,066 from the Foundation.

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 198,585
Less: accumulated depreciation	<u>(139,376)</u>
Total Fixed Assets	<u>\$ 59,209</u>

During the year ended June 30, 2015, \$7,721 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Vendor payables	\$ 16,498
Salries and benefits	11,290
Due to LAUSD	<u>23,718</u>
	<u>\$ 51,506</u>

NOTE 8 - REVOLVING LOAN

The Charter School applied for, and was accepted into, the California School Finance Authority Charter School Revolving Loan Program. The Charter School received a loan in the amount of \$100,000. The loan bears an interest rate of 0.24 percent. The terms of the loan require four annual payments of \$25,000 over the next four years and are to be withheld from the apportionment payments. The maturity date is June 30, 2017.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Future payments are as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Payments</u>
2016	\$ 25,000
2017	25,000
Total	<u>\$ 50,000</u>

NOTE 9 - FACILITIES USE AGREEMENT

The Charter School renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$139,606.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, were \$757,224.

NOTE 11 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2014, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$130,422.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$5,012.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$111,681 (5.679 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 12 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. As of September 2015, the Office of Internal Investigation has started a review of prior year activity. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

During the year ended June 30, 2015, the Charter School made payments of \$42,200 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	98.65	98.05
Seventh and eighth	181.87	180.39
Ninth through twelfth	<u>157.59</u>	<u>156.23</u>
Total Regular ADA	<u><u>438.11</u></u>	<u><u>434.67</u></u>
Classroom based ADA		
Sixth	98.65	98.05
Seventh and eighth	181.87	180.39
Ninth through twelfth	<u>157.59</u>	<u>156.23</u>
Total Classroom based ADA	<u><u>438.11</u></u>	<u><u>434.67</u></u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 4 - 6	54,000	52,457				
Grade 6			63,702	179	N/A	Complied
Grades 7 - 8	54,000	52,457				
Grade 7			63,702	179	N/A	Complied
Grade 8			63,702	179	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			63,702	179	N/A	Complied
Grade 10			63,702	179	N/A	Complied
Grade 11			63,702	179	N/A	Complied
Grade 12			63,702	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 987,700
Decrease in:	
Cash	(1)
Accounts receivable	(5,672)
Accumulated depreciation	18,852
Accounts payable and accrued payroll	<u>(6,620)</u>
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 994,259</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School 's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School 's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy 2, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA 2

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were four stale-dated checks totaling \$32,307.

Recommendation

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 3 (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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

DRAFT 12/09/2015

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	183,685
Accounts receivable		360,992
Intra-company receivable		307,336
Total Current Assets		<u>852,013</u>

Non-Current Assets:

Fixed assets		136,648
Less: accumulated depreciation		<u>128,230</u>
Total Non-Current Assets		<u>8,418</u>
Total Assets	\$	<u>860,431</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	<u>63,602</u>
Total Current Liabilities		<u>63,602</u>

NET ASSETS

Unrestricted		<u>796,829</u>
Total Net Assets		<u>796,829</u>
Total Liabilities and Net Assets	\$	<u>860,431</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 3,406,316
Federal revenue	490,995
Other State revenue	580,951
Local revenue	16,668
Total Revenues	<u>4,494,930</u>

EXPENSES

Program services:

Salaries and benefits	2,345,482
Student services	352,586
Materials and supplies	142,912
Student nutrition	315,244
Other expenses	28,199

Subtotal	<u>3,184,423</u>
----------	------------------

Management and general:

Depreciation	22,673
Management fee	762,632
Occupancy	420,651
Operating expenses	541
Debt service	72

Subtotal	<u>1,206,569</u>
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Total Expenses	<u>4,390,992</u>
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CHANGE IN UNRESTRICTED NET ASSETS	<u>103,938</u>
NET ASSETS, BEGINNING OF YEAR	<u>692,891</u>
NET ASSETS, END OF YEAR	<u><u>\$ 796,829</u></u>

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 103,938
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation expense	22,673
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	135,497
Intra-company receivable	(82,636)
Security deposits	20,035
Increase (Decrease) in liabilities	
Accounts payable and accruals	(229,704)
Net Cash Used in Operating Activities	<u>(30,197)</u>
NET DECREASE IN CASH	<u>(30,197)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>213,882</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 183,685</u></u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 3

Charter school number authorized by the State: 0917

Magnolia Science Academy 3 (the Charter School) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 450 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 12 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$22,673.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 183,685</u>	<u>\$ 313,439</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$305,378 in excess of insured limits.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 291,758
Federal receivable	48,274
State receivable	1,118
Lottery	<u>19,842</u>
Total Accounts Receivable	<u>\$ 360,992</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intercompany receivable balance of \$307,336 from the Foundation.

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 136,648
Less: accumulated depreciation	<u>(128,230)</u>
Total Fixed Assets	<u>\$ 8,418</u>

During the year ended June 30, 2015, \$22,673 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 34,875
Vendor payables	<u>28,727</u>
Total Accounts Payable	<u>\$ 63,602</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - FACILITIES USE AGREEMENT

The Charter School renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$210,227.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2016	<u>\$ 210,227</u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, is \$762,632.

NOTE 10 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	8.15%	8.15%
Required employee contribution rate	8.88%	8.88%
Required employer contribution rate	5.95%	5.95%
Required State contribution rate		

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, 2015, are presented above and the Charter School's total contributions were \$127,798.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$4,046.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$74,253 (5.679 percent of the Charter School's 201-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 11 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 12 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$41,530 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 13 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy 3 (Charter Number 0917) was granted on July 12, 2007, and renewed in 2012, for a period of five years expiring June 30, 2017, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	81.48	81.34
Seventh and eighth	177.46	177.74
Ninth through twelfth	174.53	173.15
Total Regular ADA	<u>433.47</u>	<u>432.23</u>
Classroom based ADA		
Sixth	81.48	81.34
Seventh and eighth	177.46	177.74
Ninth through twelfth	174.53	173.15
Total Classroom based ADA	<u>433.47</u>	<u>432.23</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			62,978	179	N/A	Complied
Grade 7			62,978	179	N/A	Complied
Grade 8			62,978	179	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			62,978	179	N/A	Complied
Grade 10			62,978	179	N/A	Complied
Grade 11			62,978	179	N/A	Complied
Grade 12			62,978	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 513,286
Increase in:	
Accounts receivable	13,650
Intra-company receivable	307,336
Accumulated depreciation	(2,673)
Decrease in:	
Cash	(129,754)
Accounts payable	94,984
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 796,829</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 3
(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 3 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy 3's compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding related to the Charter School Facility Grant Program, therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy 3, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA 3

Observation

1. Teachers collecting funds at the charter schools do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup.
2. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendations

1. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When impractical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds receipted.
2. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plans

1. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.
2. A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Disbursements - MSA 3

Observation

It was noted that an "employee" of the charter school was paid outside of the payroll process as an "independent contractor" for "referee services".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultation contracts to ensure the staff is aware of the IRS regulations. In addition, the charter school should perform a review of the procedures for determining who receives a Form 1099 to ensure all 1099's are properly issued.

Corrective Action Plan

Accounting staff is aware that employees are to be paid through the payroll process and not through the disbursements process.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 4 (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	352,618
Accounts receivable		142,430
Intra-company receivable		24,822
Total Current Assets		<u>519,870</u>

Non-Current Assets:

Fixed assets		117,493
Less: accumulated depreciation		<u>91,160</u>
Total Non-Current Assets		<u>26,333</u>
Total Assets	\$	<u>546,203</u>

LIABILITIES

Current Liabilities

Accounts payable and accruals	\$	70,707
Total Current Liabilities		<u>70,707</u>

NET ASSETS

Unrestricted		<u>475,496</u>
Total Net Assets		<u>475,496</u>
Total Liabilities and Net Assets	\$	<u>546,203</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 1,703,922
Federal revenue	138,952
Other State revenue	239,123
Local revenue	30,265
Total Revenues	<u>2,112,262</u>

EXPENSES

Program services:

Salaries and benefits	1,036,532
Student services	153,122
Materials and supplies	22,240
Student nutrition	52,263
Other expenses	4,885

Subtotal	<u>1,269,042</u>
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Management and general:

Depreciation	4,264
Management fee	237,895
Occupancy	146,543
Operating expenses	217,380
Interest	234

Subtotal	<u>606,316</u>
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Total Expenses	<u>1,875,358</u>
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CHANGE IN UNRESTRICTED NET ASSETS

NET ASSETS, BEGINNING OF YEAR

NET ASSETS, END OF YEAR

236,904

238,592

\$ 475,496

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 236,904
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	4,264
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	44,676
Intra-company receivable	(24,822)
Noncurrent receivable	19,225
Increase in liabilities	
Accounts payable and accruals	14,686
Net Cash Provided by Operating Activities	<u>294,933</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(24,863)</u>
Net Cash Provided (Used) by Investing Activities	<u>(24,863)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(20,103)</u>
Net Cash Used by Financing Activities	<u>(20,103)</u>

NET CHANGE IN CASH

249,967

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

102,651

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 352,618

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 234</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 4

Charter school number authorized by the State: 0986

Magnolia Science Academy4 (the Charter School) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 196 students. The Charter School was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$4,264.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 352,618</u>	<u>\$ 565,596</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$551,050 in excess of insured limits.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 124,184
Federal receivable	6,812
State receivable	3,751
Lottery	<u>7,683</u>
Total Accounts Receivable	<u>\$ 142,430</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$24,822 from the Foundation.

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 117,493
Less: accumulated depreciation	<u>(91,160)</u>
Total Fixed Assets	<u>\$ 26,333</u>

During the year ended June 30, 2015, \$4,264 was charged to depreciation expense.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 31,298
Vendor payables	15,681
Due to LAUSD	<u>23,728</u>
Total Accounts Payable	<u>\$ 70,707</u>

NOTE 8 - FACILITIES USE AGREEMENT

The Charter School renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$146,543.

NOTE 9 - LOANS PAYABLE

California Department of Education

The Charter School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2015 was \$20,000. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments. As of June 30, 2015, the loan has been paid in full.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015 is \$237,895.

NOTE 11 - 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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

(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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$59,297.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter School's Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$3,739.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$33,234 (5.541 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 12 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$21,438 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	22.50	21.59
Seventh and eighth	71.51	70.52
Ninth through twelfth	<u>119.75</u>	<u>117.67</u>
Total Regular ADA	<u><u>213.76</u></u>	<u><u>209.78</u></u>
Classroom based ADA		
Sixth	22.50	21.59
Seventh and eighth	71.51	70.52
Ninth through twelfth	<u>119.75</u>	<u>117.67</u>
Total Classroom based ADA	<u><u>213.76</u></u>	<u><u>209.78</u></u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			70,435	179	N/A	Complied
Grade 7			70,435	179	N/A	Complied
Grade 8			70,435	179	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			70,435	179	N/A	Complied
Grade 10			70,435	179	N/A	Complied
Grade 11			70,435	179	N/A	Complied
Grade 12			70,435	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 502,151
Increase in:	
Fixed Assets	2,020
Accounts payables	(28,672)
Decrease in:	
Cash	(1)
Accounts receivable	(2)
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 475,496</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Magnolia Science Academy 4.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Magnolia Science Academy 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 Magnolia Science Academy 4's internal control. Accordingly, we do not express an opinion on the effectiveness of Magnolia Science Academy 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 the Charter School'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.

As part of obtaining reasonable assurance about whether Magnolia Science Academy 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*.

We noted certain matters that we reported to management of the Academy in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy 4, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Academy.

Cash Collections - MSA 4

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 5 (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	925,625
Accounts receivable		66,084
Intra-company receivable		180,692
Total Current Assets		<u>1,172,401</u>

Non-Current Assets:

Fixed assets		111,918
Less: accumulated depreciation		91,406
Total Non-Current Assets		<u>20,512</u>
Total Assets	\$	<u>1,192,913</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	318,371
Total Current Liabilities		<u>318,371</u>

NET ASSETS

Unrestricted		874,542
Total Net Assets		<u>874,542</u>
Total Liabilities and Net Assets	\$	<u>1,192,913</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 780,024
Federal revenue	78,761
Other State revenue	169,416
Local revenue	<u>6,657</u>
Total Revenues	<u>1,034,858</u>

EXPENSES

Program services:

Salaries and benefits	619,946
Student services	84,723
Materials and supplies	18,350
Student nutrition	16,246
Other expenses	<u>3,878</u>
Subtotal	<u>743,143</u>

Management and general:

Depreciation	14,927
Management fee	103,749
Occupancy	99,063
Operating expenses	85,552
Interest	<u>3,396</u>
Subtotal	<u>306,687</u>
Total Expenses	<u>1,049,830</u>

CHANGE IN UNRESTRICTED NET ASSETS	<u>(14,972)</u>
NET ASSETS, BEGINNING OF YEAR	<u>889,514</u>
NET ASSETS, END OF YEAR	<u>\$ 874,542</u>

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ (14,972)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	14,927
Changes in operating assets and liabilities:	
Decrease in assets	
Accounts receivable	166,035
Increase in liabilities	
Accounts payable and accruals	259,465
Net Cash Provided by Operating Activities	<u>594,763</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(11,281)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(16,688)</u>
Net Cash used by Financing Activities	<u>(16,688)</u>

NET CHANGE IN CASH

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>358,831</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 925,625</u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 3,396</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (the Charter School), formerly located in Hollywood, now located in Reseda, California provides sixth through eighth grade education to approximately 112 students. The Charter School 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. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 12 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$14,927.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in bank	<u>\$ 925,625</u>	<u>\$ 1,020,968</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had a balance of \$994,710 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 44,351
Federal receivable	413
Other State receivable	1,146
Lottery	9,204
Local receivable	<u>10,970</u>
Total Accounts Receivable	<u>\$ 66,084</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$180,692 from the Foundation.

NOTE 6 - FIXED ASSETS

Property and equipment consisted of the following at June 30, 2015:

Software and equipment	\$ 111,918
Less: accumulated depreciation	<u>(91,406)</u>
Total Fixed Assets	<u>\$ 20,512</u>

During the year ended June 30, 2015, \$14,927 was charged to depreciation expense.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 16,962
Vendor payables	11,006
Due to grantor	<u>290,403</u>
Total Accounts Payable	<u>\$ 318,371</u>

NOTE 8 - LOANS PAYABLE

California Department of Education

The Charter School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments. The loan balance as of June 30, 2015, was paid in full.

NOTE 9 - FACILITIES USE AGREEMENT

The Charter School renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$99,063.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2016	<u>\$ 100,168</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, were \$103,749.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 11 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$31,370.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$3,899.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$15,034 (5.679 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 12 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$9,421 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 13 - CONTINGENCIES

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy (Charter Number 0987) was granted on May 8, 2008, by the Los Angeles Unified School District. The Charter School has been approved for grades six through twelve and operated one school, grades six through eight for the year ended June 30, 2015.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	67.94	67.59
Seventh and eighth	<u>35.21</u>	<u>35.58</u>
Total Regular ADA	<u>103.15</u>	<u>103.17</u>
Classroom based ADA		
Sixth	67.94	67.59
Seventh and eighth	<u>35.21</u>	<u>35.58</u>
Total Classroom based ADA	<u>103.15</u>	<u>103.17</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2014-15 Actual Minutes</u>	<u>Number of Days</u>		<u>Status</u>
				<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 6 - 8	54,000	52,457				
Grade 6			60,666	179	N/A	Complied
Grade 7			60,666	179	N/A	Complied
Grade 8			60,666	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 890,631
Increase in:	
Cash	525
Accounts receivable	363
Accounts payable	(9,281)
Decrease in:	
Accumulated depreciation	(7,695)
Intra-company receivable	(1)
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 874,542</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

Other Matters

DRAFT 12/09/2015

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 5, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA 5

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 6 (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	806,785
Accounts receivable		229,670
Prepaid expenses and other current assets		8,000
Total Current Assets		<u>1,044,455</u>

Non-Current Assets:

Fixed assets		62,699
Less: accumulated depreciation		<u>62,699</u>
Total Non-Current Assets		<u>-</u>
Total Assets	\$	<u>1,044,455</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	376,769
Intra-company payable		181,177
Total Current Liabilities		<u>557,946</u>

NET ASSETS

Unrestricted		<u>486,509</u>
Total Net Assets		<u>486,509</u>
Total Liabilities and Net Assets	\$	<u>1,044,455</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 1,155,329
Federal revenue	105,101
Other State revenue	221,875
Local revenue	29,582
Total Revenues	<u>1,511,887</u>

EXPENSES

Program services:

Salaries and benefits	686,248
Student services	52,787
Materials and supplies	25,724
Student nutrition	30,234
Other expenses	9,755

Subtotal 804,748

Management and general:

Depreciation	8,461
Occupancy	96,000
Operating expenses	180,631

Subtotal 285,092

Total Expenses 1,089,840

CHANGE IN UNRESTRICTED NET ASSETS

422,047

NET ASSETS, BEGINNING OF YEAR

64,462

NET ASSETS, END OF YEAR

\$ 486,509

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 422,047
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	8,461
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	93,655
Intra-company receivable	(294,100)
Prepaid expenses and other current assets	(8,000)
Increase (Decrease) in liabilities	
Accounts payable and accruals	276,484
Intra-company payable	173,719
Net Cash Provided by Operating Activities	<u>672,266</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(23,438)</u>
Net Cash Used by Financing Activities	<u>(23,438)</u>

NET INCREASE IN CASH	<u>648,828</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>157,957</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 806,785</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy-6 (School) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 145 students. The School 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. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$8,461.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in bank	<u>\$ 806,785</u>	<u>\$ 847,430</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$597,430 in excess of insured limits.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 187,628
Federal receivable	8,578
State receivable	6,000
Lottery	5,694
Local receivable	21,770
Total Accounts Receivable	<u>\$ 229,670</u>

NOTE 5 - PREPAID EXPENSES

Prepaid expenses at June 30, 2015, consisted of the following:

Prepaid rent, insurance, and miscellaneous vendors	<u>\$ 8,000</u>
--	-----------------

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 62,699
Less: accumulated depreciation	<u>(62,699)</u>
Total Fixed Assets	<u>\$ -</u>

During the year ended June 30, 2015, \$8,461 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 16,095
Vendor payables	18,772
Due to LAUSD	388
Due to grantor	341,514
Total Accounts Payable	<u>\$ 376,769</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - OPERATING LEASE

The Charter School entered into an operating lease with First Lutheran Church of Culver City and Palms for the use of property located in Los Angeles, California at 3754 Dunn Drive for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement began August 1, 2014, and renew annually upon mutual agreement. Lease expense during the year ended June 30, 2015, was \$96,000.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2016	<u>\$ 107,000</u>

NOTE 9 - LOANS PAYABLE

California Department of Education

The Charter School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments. The loan balance as of June 30, 2015, was paid in full.

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, is \$150,563.

NOTE 11 - INTRA-COMPANY PAYABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$181,177 from the Foundation.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$35,864.

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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$4,020.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$18,427 (5.679 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 13 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$13,602 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy 6 (Charter Number 0988) was granted on May 8, 2008, by the Los Angeles Unified School District. The Charter School operates one school, grades four through eight.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	<u>Second Period Report</u>	<u>Annual Report</u>
Regular ADA		
Sixth	51.18	50.84
Seventh and eighth	<u>108.42</u>	<u>109.38</u>
Total Regular ADA	<u>159.60</u>	<u>160.22</u>
 Classroom based ADA		
Sixth	51.18	50.84
Seventh and eighth	<u>108.42</u>	<u>109.38</u>
Total Classroom based ADA	<u>159.60</u>	<u>160.22</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			62,229	179	N/A	Complied
Grade 7			62,229	179	N/A	Complied
Grade 8			62,229	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 485,437
Increase in:	
Accounts payables	(1,482)
Decrease in:	
Intra-company payable	<u>2,554</u>
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 486,509</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Academy in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study and Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 6, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Academy.

Cash Collections - MSA 6

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

Governing Board of Directors
Magnolia Science Academy 7
(A California Non-Profit Public Benefit Corporation)
Northridge, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 7 (the Charter School) (A California Non-Profit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	924,010
Accounts receivable		502,994
Intra-company receivable		133,118
Total Current Assets		<u>1,560,122</u>

Non-Current Assets

Debt issue cost, net		
Security deposits		4,000
Fixed assets		110,112
Less: accumulated depreciation		<u>59,072</u>
Total Non-Current Assets		<u>55,040</u>
Total Assets	\$	<u><u>1,615,162</u></u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	<u>764,560</u>
Total Current Liabilities		<u>764,560</u>

NET ASSETS

Unrestricted		<u>850,602</u>
Total Net Assets		<u>850,602</u>
Total Liabilities and Net Assets	\$	<u><u>1,615,162</u></u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 2,049,711
Federal revenue	249,512
Other State revenue	618,969
Local revenue	60,292
Total Revenues	<u>2,978,484</u>

EXPENSES

Program services:

Salaries and benefits	1,344,404
Student services	166,133
Materials and supplies	135,999
Student nutrition	139,482
Other expenses	58,525

Subtotal 1,844,543

Management and general:

Depreciation	25,417
Management fee	450,015
Occupancy	228,598
Operating expenses	177,687
Interest	135

Subtotal 881,852

Total Expenses 2,726,395

CHANGE IN UNRESTRICTED NET ASSETS

252,089

NET ASSETS, BEGINNING OF YEAR

598,513

NET ASSETS, END OF YEAR

\$ 850,602

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 252,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	25,417
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	(19,707)
Prepaid expenses and other current assets	20,259
Increase in liabilities	
Accounts payable and accruals	583,513
Net Cash Provided by Operating Activities	<u>728,453</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(33,706)</u>
----------------------	-----------------

CHANGE IN CASH

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>694,747</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 924,010</u></u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u><u>\$ 135</u></u>
--	----------------------

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (Charter School) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 300 students. The Charter School 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. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 12 to the financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets, as of June 30, 2015. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School are a non-profit 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. Income tax returns for 2011 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The Charter School have 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School' policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$25,417.

Deferred Revenue

Deferred revenue arises when resources are received by the Charter School prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when the Charter School have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School' program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

Net Asset Classes

Magnolia Science Academy 7 is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy 7 consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand	<u>\$ 924,010</u>	<u>\$ 1,033,970</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had a balance of \$1,007,378 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 324,936
Federal receivable	12,382
State receivable	57,924
Lottery	11,817
Local receivable	95,935
Total Accounts Receivable	<u>\$ 502,994</u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$133,118 from the Foundation.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 - PREPAID EXPENSES

Prepaid expenses at June 30, 2015, consisted of the following:

Security deposits	<u>\$ 4,000</u>
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NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Building improvements	\$ 27,904
Computer and equipment	<u>82,208</u>
Subtotal	110,112
Less: accumulated depreciation	<u>(59,072)</u>
Total Fixed Assets	<u>\$ 51,040</u>

During the year ended June 30, 2015, \$25,417 was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Vendor payables	\$ 30,709
Due to grantor	<u>733,851</u>
Total Accounts Payable	<u>\$ 764,560</u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - OPERATING LEASES

The Charter School leases its facilities in Northridge, California, under an operating lease commencing January 1, 2012 and terminating on July 31, 2017, with a monthly payment of \$19,096. Total rent and maintenance expense during the year ended June 30, 2015, was \$228,598.

The future minimum lease commitments are as follows:

MSA 7	
<u>Fiscal Year</u>	<u>Payment</u>
2016	\$ 235,456
2017	242,520

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, were \$450,015.

NOTE 11 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2014, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$65,818

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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$8,442.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Academies. These payments consist of State General Fund contributions to CalSTRS in the amount of \$33,813 (5.679 percent of the Charter School' 2012-2013 creditable compensation subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 12 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 The Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$24,838 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 13 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. As of September 2015, the Office of Internal Investigation has started a review of prior year activity. 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 has no outstanding claims or litigation.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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)

DRAFT 12/09/2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 103,140
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	196,858
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	1,898
Title III Cluster:			
Title III, Immigrant Education Program	84.365	15146	1,490
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	11,846
Total Title III Cluster			<u>13,336</u>
Total U.S. Department of Education			<u>315,232</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	103,769
National School Lunch Program	10.555	13524	181,268
Total Child Nutrition Cluster			<u>285,037</u>
Total U.S. Department of Agriculture			<u>285,037</u>
Total Federal Programs			<u>\$ 600,269</u>

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy 7 (Charter Number 0989) was granted on February 26, 2008, by the Los Angeles Unified School District. The Charter School operates one school, grades kindergarten through six.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	201.42	200.21
Fourth through sixth	79.98	79.85
Total Regular ADA	<u>281.40</u>	<u>280.06</u>
Classroom based ADA		
Transitional kindergarten through third	201.42	200.21
Fourth through sixth	79.98	79.85
Total Classroom based ADA	<u>281.40</u>	<u>280.06</u>

The Charter School did not operate a non-classroom based Instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	34,971	69,195	179	N/A	Complied
Grades 1 - 3	50,400	48,960				
Grade 1			62,475	179	N/A	Complied
Grade 2			62,475	179	N/A	Complied
Grade 3			62,475	179	N/A	Complied
Grades 4 - 6	54,000	52,457				
Grade 4			62,475	176	N/A	Complied
Grade 5			62,475	176	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 762,024
Increase in:	
Accounts receivable	11,543
Decrease in:	
Cash	(1,679)
Accounts payable	4,490
Accumulated depreciation	(7,818)
Prepaid expenses and other current assets	(4,000)
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 764,560</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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 the Charter School and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Magnolia Science Academy 7.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

The Charter School must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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 Charter School'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 the Academy in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 7, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA 7

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy Bell
(A California Non-Profit Public Benefit Corporation)
Bell, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Bell (the Charter School) (A California Non-Profit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 2,421,557
Accounts receivable	422,414
Intra-company receivable	148,920
Total Current Assets	<u>\$ 2,992,891</u>

Non-Current Assets

Fixed assets	39,399
Less: accumulated depreciation	17,417
Total Non-Current Assets	<u>21,982</u>
Total Assets	<u>\$ 3,014,873</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$ 182,680
Total Current Liabilities	<u>182,680</u>

NET ASSETS

Unrestricted	<u>2,832,193</u>
Total Net Assets	<u>2,832,193</u>
Total Liabilities and Net Assets	<u>\$ 3,014,873</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 3,611,558
Federal revenue	298,515
Other State revenue	637,876
Local revenue	60,207
Total Revenues	<u>4,608,156</u>

EXPENSES

Program services:

Salaries and benefits	2,591,882
Student services	243,914
Materials and supplies	139,340
Student nutrition	183,583
Other expenses	52,716

Subtotal 3,211,435

Management and general:

Depreciation	6,659
Management fee	872,216
Operating expenses	573,111

Subtotal 1,451,986

Total Expenses 4,663,421

CHANGE IN UNRESTRICTED NET ASSETS

(55,265)

NET ASSETS, BEGINNING OF YEAR

2,887,458

NET ASSETS, END OF YEAR

\$ 2,832,193

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ (55,265)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation expense	6,659
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	194,561
Intra-company receivable	719,561
Prepaid expenses and other current assets	101,566
Increase (Decrease) in liabilities	
Accounts payable and accruals	<u>22,644</u>
Net Cash Used by Operating Activities	<u>989,726</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(7,441)</u>
Net Cash (Used) by Investing Activities	<u>(7,441)</u>

NET DECREASE IN CASH	<u>982,285</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,439,272</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,421,557</u>

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Bell

Charter school number authorized by the State: 1236

Magnolia Science Academy-8 (School) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 495 students. The Charter School 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. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 12 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$6,354.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Fair Market Value</u>
Cash in county	<u>\$ 2,421,557</u>	<u>\$ 2,454,728</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had a balance of \$2,391,596 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 359,620
Federal receivable	8,490
State receivable	22,546
Lottery	<u>31,758</u>
Total Accounts Receivable	<u><u>\$ 62,794</u></u>

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$148,920 from the Foundation.

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 39,399
Less: accumulated depreciation	<u>(17,417)</u>
Total Fixed Assets	<u><u>\$ 21,982</u></u>

During the year ended June 30, 2015, \$6,659 was charged to depreciation expense.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 33,965
Vendor payables	89,408
Due to LAUSD	<u>59,307</u>
Total Accounts Payable	<u><u>\$ 182,680</u></u>

NOTE 8 - FACILITIES USE AGREEMENT

The Charter School renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$207,553.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2016	<u><u>\$ 207,553</u></u>

NOTE 9 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, were \$872,216.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$133,110.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$20,475.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$79,809 (5.679 percent of the Charter School's 2011-2012 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 11 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 12 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and the CharterSAFE is such that the CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$45,617 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 13 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District. The Charter School operates one school, grades six through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	145.16	144.58
Seventh and eighth	<u>330.68</u>	<u>329.74</u>
Total Regular ADA	<u>475.84</u>	<u>474.32</u>
Classroom based ADA		
Sixth	145.16	144.58
Seventh and eighth	<u>330.68</u>	<u>329.74</u>
Total Classroom based ADA	<u>475.84</u>	<u>474.32</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			69,315	179	N/A	Complied
Grade 7			69,315	179	N/A	Complied
Grade 8			69,315	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 2,896,467
Increase in:	
Accounts payable	(995)
Fixed Assets	(304)
Decrease in:	
Accounts receivable	<u>(7,710)</u>
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 2,887,458</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Magnolia Science Academy Bell.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 Non-Profit Public Benefit Corporation)
Westminster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Bell (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Academy in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy Bell
(A California Non-Profit Public Benefit Corporation)
Bell, California

Report on State Compliance

We have audited Magnolia Science Academy Bell's (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

Governing Board
Magnolia Science Academy Bell
(A California Non-Profit Public Benefit Corporation)
Bell, California

In planning and performing our audit of the financial statements of Magnolia Science Academy Bell, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Academy.

Cash Collections - MSA 8

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were three stale-dated checks totaling \$2,503.
3. Teachers collecting funds at the charter school do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup. Additionally, cash count sheets are not consistently being signed by a reviewer.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".
3. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When impractical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds received.

Corrective Action Plans

1. MERF confirmed that the months tested related to a transition period in which review of bank reconciliations was not being performed.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.
3. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Ana (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	140,106
Restricted assets		
Cash held for restricted purposes		432,732
Accounts receivable		578,641
Prepaid expenses and other current assets		19,000
Total Current Assets		<u>1,170,479</u>

Non-Current Assets:

Security deposits		27,000
Fixed assets		3,788,424
Less: accumulated depreciation		94,867
Total Non-Current Assets		<u>3,720,557</u>
Total Assets	\$	<u>4,891,036</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	71,456
Intra-company payable		330,000
Deferred revenue		354,000
Current portion of long-term obligations		25,000
Total Current Liabilities		<u>780,456</u>

Long-Term Obligations:

Non-current portion of long-term obligations		<u>2,090,702</u>
Total Liabilities		<u>2,871,158</u>

NET ASSETS

Unrestricted		1,587,146
Unrestricted -Designated		432,732
Total Net Assets		<u>2,019,878</u>
Total Liabilities and Net Assets	\$	<u>4,891,036</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 1,155,757
Federal revenue	89,864
Other State revenue	210,696
Local revenue	<u>29,745</u>
Total Revenues	<u>1,486,062</u>

EXPENSES

Program services:	
Salaries and benefits	993,530
Student services	231,343
Materials and supplies	27,013
Student nutrition	37,922
Other expenses	<u>9,483</u>
Subtotal	<u>1,299,291</u>
Management and general:	
Depreciation	24,823
Occupancy	206,499
Operating expenses	182,749
Debt service	<u>460</u>
Subtotal	<u>414,531</u>
Total Expenses	<u>1,713,822</u>

CHANGE IN UNRESTRICTED NET ASSETS	<u>(227,760)</u>
NET ASSETS, BEGINNING OF YEAR	<u>2,247,638</u>
NET ASSETS, END OF YEAR	<u>\$ 2,019,878</u>

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

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ (227,760)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	24,823
Changes in operating assets and liabilities:	
Decrease in assets	
Accounts receivable	(334,028)
Prepaid expenses and other current assets	(19,000)
Security deposits	(17,922)
Increase in liabilities	
Accounts payable and accruals	(37,497)
Intra-company payable	330,000
Deferred revenue	354,000
Net Cash Provided by Operating Activities	<u>72,616</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(302,828)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(24,996)</u>
-------------------------	-----------------

NET DECREASE IN CASH	<u>(255,208)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>828,046</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 572,838</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 0943

Magnolia Science Academy Santa Ana (School) (Formerly Pacific Technology School Santa Ana) is a charter school located in Costa Mesa, California that provides sixth through twelfth grade education to approximately 165 students. The Charter School was created under the approval the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 15 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$24,892.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Net Asset Classes

Magnolia Science Academy Santa Ana (Formerly Pacific Technology School Santa Ana) is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy Santa Ana (Formerly Pacific Technology School Santa Ana) consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as designated net assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2015, the amount of designated net assets was \$432,732.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 71,428</u>	<u>\$ 130,232</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had a balance of \$126,882 in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

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, 2015, was comprised of the following:

Current restricted cash	<u>\$ 432,732</u>
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NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
Orange County Treasury Investment Pool	<u>\$ 68,678</u>	<u>\$ 68,550</u>

Deposits with county treasurer are an external investment pool sponsored by the County of Orange. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 Charter School 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. The Charter School manages its exposure to interest rate risk by investing in the County Pool.

NOTE 6- MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Charter School 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

<u>Investment Type</u>	<u>Level</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
Orange County Investment Pool	2	<u>\$ 68,550</u>	278

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 208,605
Federal receivable	383,721
State receivable	<u>54,993</u>
Total Accounts Receivable	<u>\$ 647,319</u>

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Construction in progress	\$ 3,652,414
Software and equipment	136,010
Subtotal	3,788,424
Less: accumulated depreciation	<u>(94,867)</u>
Total Fixed Assets	<u>\$ 3,693,557</u>

During the year ended June 30, 2015, \$24,892 was charged to depreciation expense.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 9 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 9,219
Vendor payables	<u>62,237</u>
Total Accounts Payable	<u>\$ 71,456</u>

NOTE 10- LOANS PAYABLE

California Department of Education

The Charter School received unsecured revolving loan payable to the California Department of Education totaling \$150,000 on November 30, 2012. The loan balance as of June 30, 2015, was \$75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments.

Future payments are as follows:

Fiscal Year Ending	Payments
<u>June 30,</u>	
2016	\$ 25,000
2017	25,000
2018	<u>25,000</u>
Total	<u>\$ 75,000</u>

Charter School Facilities Program

The Charter School 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 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2015, was \$2,015,698.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 11 - OPERATING LEASE

School leases its facilities in Costa Mesa, California, under an operating lease, which commenced August 1, 2014. The lease is for a five-year term ending June 30, 2019, with monthly payments of \$19,000. Total rent expense during the year ended June 30, 2015, was \$206,499.

Future payments are as follows:

Year Ending June 30,	Facility Lease Payments
<u>2016</u>	<u>\$ 228,000</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. There were no management fees paid to the Foundation for the year ended June 30, 2015.

Intra-Company Payable

During 2014-2015, the board authorized a loan between Home Office to the Charter School for temporary financial hardship. As of June 30, 2015, the balance outstanding is \$330,000. Future repayment of \$27,500 will be made monthly over the next twelve months ending June 30, 2016.

Intra-Company Receivable

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School 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, 2015, the Charter School had an intra-company receivable balance of \$19,000 from the Foundation.

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).

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	8.15%	8.15%
Required employee contribution rate	8.88%	8.88%
Required employer contribution rate	5.95%	5.95%
Required State contribution rate		

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, 2015, are presented above and the Charter School's total contributions were \$36,202.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$3,585.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$494,654 (5.679 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 14 - CONTINGENCIES

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

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$16,646 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 16 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy Santa Ana (Charter Number 1686) was granted on August 1, 2014, by the California State Board of Education. The Charter School operates one school, grades six through twelve.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	27.70	27.66
Seventh and eighth	85.84	85.01
Ninth through twelfth	43.57	43.30
Total Regular ADA	<u>157.11</u>	<u>155.97</u>
Classroom based ADA		
Sixth	27.70	27.66
Seventh and eighth	85.84	85.01
Ninth through twelfth	43.57	43.30
Total Classroom based ADA	<u>157.11</u>	<u>155.97</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015**

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			65,286	179	N/A	Complied
Grade 7			65,286	179	N/A	Complied
Grade 8			65,286	179	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			65,286	179	N/A	Complied
Grade 10			65,286	179	N/A	Complied
Grade 11			65,286	179	N/A	Complied
Grade 12			65,286	179	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 2,297,014
Increase in:	
Cash	68,679
Deferred revenue	(354,000)
Decrease in:	
Accounts payable and accrued payroll	82,757
Accounts receivable	(68,641)
Fixed Assets	<u>(5,931)</u>
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 2,019,878</u>

See accompanying note to supplementary information.

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of Education Code Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Orange County Office of Education to Magnolia Science Academy Santa Ana.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 Santa Ana's (the Charter School) compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Ana, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA SA

Observations

1. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were two stale-dated checks totaling \$361.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review future checks outstanding.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Clara (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	170,245
Accounts receivable		816,594
Prepaid expenses and other current assets		2,854
Total Current Assets		<u>989,693</u>

Non-Current Assets:

Security deposits		39,001
Fixed assets		250,536
Less: accumulated depreciation		81,587
Total Non-Current Assets		<u>207,950</u>
Total Assets	\$	<u>1,197,643</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	232,517
Intra-company payable		380,000
Current portion of long-term obligations		57,726
Total Current Liabilities		<u>670,243</u>

Long-Term Obligations:

Non-current portion of long-term obligations		28,863
Total Liabilities		<u>699,106</u>

NET ASSETS

Unrestricted		498,537
Total Liabilities and Net Assets	\$	<u>1,197,643</u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 3,084,298
Federal revenue	57,606
Other State revenue	130,109
Local revenue	<u>76,909</u>
Total Revenues	<u>3,348,922</u>

EXPENSES

Program services:

Salaries and benefits	2,077,763
Student services	54,889
Materials and supplies	46,113
Student nutrition	22,710
Other expenses	<u>31,759</u>
Subtotal	<u>2,233,234</u>

Management and general:

Depreciation	11,496
Management fee	198,742
Occupancy	500,138
Operating expenses	273,575
Debt service	<u>125</u>
Subtotal	<u>984,076</u>
Total Expenses	<u>3,217,310</u>

CHANGE IN UNRESTRICTED NET ASSETS

NET ASSETS, BEGINNING OF YEAR

NET ASSETS, END OF YEAR

<u>131,612</u>
<u>366,925</u>
<u>\$ 498,537</u>

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 131,612
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation expense	11,496
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	(397,811)
Prepaid expenses and other current assets	(2,854)
Security deposits	(1,650)
Increase (Decrease) in liabilities	
Accounts payable and accruals	(71,651)
Intra-company payable	380,000
Deferred revenue	(182,667)
Net Cash Provided (Used) by Operating Activities	<u>(133,525)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(85,062)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Loan proceeds, net	<u>86,589</u>
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CHANGE IN CASH	<u>(131,998)</u>
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>302,243</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 170,245</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Santa Clara (the Charter School) is a charter school located in Santa Clara, California that provides fourth through ninth grade education to approximately 492 students. The Charter School was created under the approval of the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

Related Entity

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

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

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$11,496.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

Net Asset Classes

Magnolia Science Academy - Santa Clara is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy - Santa Clara consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the school.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2015, the Charter School has no designation balance.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - CASH

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 170,245</u>	<u>\$ 203,017</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2015, the Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$197,796 in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 510,808
Federal receivable	5,359
Lottery	41,673
Local receivable	<u>258,754</u>
Total Accounts Receivable	<u>\$ 816,594</u>

NOTE 5 - PREPAID EXPENSES

Prepaid expenses at June 30, 2015, consisted of the following:

Prepaid rent, insurance, and miscellaneous vendors	<u>\$ 2,854</u>
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 250,536
Less: accumulated depreciation	(81,587)
Total Fixed Assets	<u>\$ 168,949</u>

During the year ended June 30, 2015, \$11,946 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 19,750
Vendor payables	168,541
Due to SCUSD	4,739
Due to grantor	39,487
Total Accounts Payable	<u>\$ 232,517</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Chrome Books

The Charter School entered into a capital lease to purchase 450 chrome books for \$128,744. The terms of the loan require 36 monthly payments of \$4276, interest rate of 8.00 percent and with a maturity date June 30, 2017. The balance outstanding as of June 30, 2015, is \$86,589. The current portion of long-term obligations is \$57,726.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 9 - OPERATING LEASES

The Charter School leases its facilities in Santa Clara, California, under an operating lease commencing August 1, 2012, and terminating on July 31, 2015, with a monthly payment of \$28,295. Total rent and maintenance expense during the year ended June 30, 2015, was \$500,138.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2016	<u>\$ 339,540</u>

NOTE 10 - RELATED PARTY TRANSACTIONS

The Charter School is part of the Foundation. The Charter School 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, 2015, is \$198,742.

Intra-Company Loan

During 2014-2015, the board authorized a loan between Home Office to the Charter School for temporary financial hardship. As of June 30, 2015, the balance outstanding is \$380,000. Future repayment of \$31,667 will be made monthly over the next twelve months ending June 30, 2016.

NOTE 11 - 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 Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 Years of Service	5 Years of Service
Benefit vesting schedule	Monthly for Life	Monthly for Life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	8.15%	8.15%
Required employee contribution rate	8.88%	8.88%
Required employer contribution rate	5.95%	5.95%
Required State contribution rate		

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, 2015, are presented above and the Charter School's total contributions were \$127,177.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$7,580.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$15,204 (5.679 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 12 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. As of September 2015, the Office of Internal Investigation has started a review of prior year activity. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation insurance, charter school liability insurance and medical, dental and vision insurance. The relationship between the Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

During the year ended June 30, 2015, the Charter School made payments of \$45,820 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 14 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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.

The Charter School has renewed its facilities use lease agreement in Santa Clara, California. The terms of the new lease began August 1, 2015, and expire on July 31, 2018. The Charter School will make monthly rent and maintenance expense payments.

SUPPLEMENTARY INFORMATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

Magnolia Science Academy Santa Clara (Charter School No. 1116) was granted on July 9, 2009, by the Santa Clara County Office of Education. The Charter School operates one school, grades six through nine.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	120.19	119.70
Seventh and eighth	241.36	240.87
Ninth	102.99	102.05
Total Regular ADA	<u>464.54</u>	<u>462.62</u>
Classroom based ADA		
Sixth	120.19	119.70
Seventh and eighth	241.36	240.87
Ninth	102.99	102.05
Total Classroom based ADA	<u>464.54</u>	<u>462.62</u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			63,700	176	N/A	Complied
Grade 7			63,700	176	N/A	Complied
Grade 8			63,700	176	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			63,700	176	N/A	Complied
Grade 10			63,700	176	N/A	Complied
Grade 11			63,700	176	N/A	Complied
Grade 12			63,700	176	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 473,945
Increase in:	
Accounts receivable	2,548
Prepaid expenses and other current assets	3,331
Fixed assets	24,501
Accounts payable	(9,778)
Decrease in:	
Cash	<u>3,990</u>
Balance, June 30, 2015, Audited Financial Statement	<u><u>\$ 498,537</u></u>

See accompanying note to supplementary information.

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Santa Clara County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 Clara
(A California Nonprofit Public Benefit Corporation)
Westminster, 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 Clara (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy Santa Clara
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on State Compliance

We have audited Magnolia Science Academy Santa Clara's compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

Other Matters

DRAFT 12/09/2015

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter School did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
_____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Clara, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Academy.

Payroll - MSA SC

Observation

The principal/management signed "At-Will Employment agreements" was not provided for one of six employees tested

Recommendation

A procedure should be in place to make sure that the "At-Will Employment agreements" are being reviewed and approved by the site principal or other authorized management prior to employment.

Corrective Action Plan

The charter school has been able to locate a number of "At-Will Employment agreements"; however, this one was misplaced due to transition of records. The Principal has requested to upload all future agreements into CoolSIS for review by Human Resources.

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

Rancho Cucamonga, California
_____, 2015

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy San Diego (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2015, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 *2014-2015 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 Charter School'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 Charter School'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 financial position of the Charter School as of June 30, 2015, 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 that collectively comprise the Charter School's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic 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 _____, 2015, on our consideration of the Charter School'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 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 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 Charter School's internal control over financial reporting and compliance.

Rancho Cucamonga, California
_____, 2015

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	382,157
Restricted assets		
Cash held for restricted purposes		118,998
Accounts receivable		<u>248,652</u>
Total Current Assets		<u>749,807</u>

Non-Current Assets

Fixed assets		586,778
Less: accumulated depreciation		<u>258,217</u>
Total Non-Current Assets		<u>328,561</u>
Total Assets	\$	<u><u>1,078,368</u></u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$	82,466
Deferred revenue		2,940
Total Current Liabilities		<u>85,406</u>

Long-Term Obligations:

Non-current portion of long-term obligations		<u>151,806</u>
Total Liabilities		<u>237,212</u>

NET ASSETS

Unrestricted		722,158
Unrestricted- Designated		<u>118,998</u>
Total Net Assets		<u>841,156</u>
Total Liabilities and Net Assets	\$	<u><u>1,078,368</u></u>

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

CHANGES IN UNRESTRICTED NET ASSETS

Unrestricted revenues:

State apportionments	\$ 2,243,691
Federal revenue	93,377
Other State revenue	361,721
Local revenue	99,896
Total Revenues	<u>2,798,685</u>

EXPENSES

Program services:

Salaries and benefits	1,834,111
Student services	132,745
Materials and supplies	27,733
Student nutrition	38,481
Other expenses	10,249

Subtotal 2,043,319

Management and general:

Depreciation	37,442
Management fee	214,224
Operating expenses	107,772
Interest	82

Total Expenses 2,402,839

CHANGE IN UNRESTRICTED NET ASSETS

NET ASSETS, BEGINNING OF YEAR

NET ASSETS, END OF YEAR

395,846
445,310
\$ 841,156

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in unrestricted net assets	\$ 395,846
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	37,442
Changes in operating assets and liabilities:	
Decrease in assets	
Accounts receivable	54,002
Increase (Decrease) in liabilities	
Accounts payable and accruals	(255,568)
Deferred revenue	423
Net Cash Provided by Operating Activities	<u>232,145</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	<u>(100,609)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	<u>(20,000)</u>
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NET INCREASE IN CASH	<u>111,536</u>
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>389,619</u>
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CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 501,155</u></u>
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Supplemental cash flow disclosure:

Cash paid during the period for interest	<u><u>\$ 82</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (the Charter School) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 365 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

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

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 15 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2015. In addition, the Charter School is required to present a statement of cash flows.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2014-2015, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit 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. Income tax returns for 2011 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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Tenant improvement, furniture and equipment are depreciated using the straight-line method, over 2 to 5 years. Depreciation expense for the year ended June 30, 2015, was \$20,000.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent 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.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of the Charter School.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. The Charter School does not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used by the school. The Charter School does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as restricted net assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2015, the amount of restricted net assets was \$118,998.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 280,001</u>	<u>\$ 334,625</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2015, the Charter School had \$326,019 in excess of insured limits.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, was comprised of the following:

Current restricted cash for the Charter School Facilities Program	<u>\$ 118,998</u>
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NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
San Diego County Treasury Investment Pool	<u>\$ 102,156</u>	<u>\$ 102,103</u>

Deposits with county treasurer are an external investment pool sponsored by the County of San Diego. County deposits are not required to be categorized. The pool provided the fair value for these deposits.

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 Charter School 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. The Charter School manages its exposure to interest rate risk by investing in the County Pool.

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Charter School 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

<u>Investment Type</u>	<u>Level</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
San Diego County Investment Pool	2	<u>\$ 102,103</u>	253

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 166,881
Federal receivable	26,481
State receivable	27,394
Lottery	<u>33,482</u>
Total Accounts Receivable	<u><u>\$ 254,238</u></u>

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Software and equipment	\$ 402,163
Work in progress	<u>184,615</u>
Subtotal	586,778
Less: accumulated depreciation	<u>(297,517)</u>
Total Fixed Assets	<u><u>\$ 289,261</u></u>

During the year ended June 30, 2015, \$37,442 was charged to depreciation expense.

NOTE 9 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

Payroll and benefits	\$ 36,569
Vendor payables	24,642
Due to SDUSD	<u>21,255</u>
Total Accounts Payable	<u><u>\$ 82,466</u></u>

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 10 - LOANS PAYABLE

California Department of Education

The School received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on June 23, 2010. The loan has an interest rate of 0.54 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments. At June 30, 2015, the loan balance was paid in full.

Charter School Facilities Program

The Charter School 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 the Charter School's State School Fund Apportionments. The outstanding loan balance as of June 30, 2015, was \$151,806.

NOTE 11 - FACILITIES USE AGREEMENT

The Charter School renewed a multi-year Facilities Use Permit Agreement with SDUSD for the sole purpose of operating the Charter School educational programs and related Charter School activities. The terms include rental fees shall be paid on the first of every month. The agreement expired June 30, 2015. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2015, was \$46,434.

Future payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2016	<u>\$ 48,475</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

The School is part of the Foundation. The School 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, 2015, is \$214,224.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School 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 Charter School 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. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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 Charter School 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

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, 2015, are presented above and the Charter School's total contributions were \$102,985.

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the Charter 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. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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 Charter School 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, 2015, are presented above and the total Charter School contributions were \$6,793.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$58,861 (5.541 percent of the Charter School's 2012-2013 creditable compensation subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The Charter School has elected to use social security as its alternative plan.

NOTE 14 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. As of September 2015, the Office of Internal Investigation has started a review of prior year activity. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School 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 The Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School 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 the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, the Charter School made payments of \$32,321 to CharterSAFE for services received. At June 30, 2015, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through _____, 2015, 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.

The Charter School has renewed it's Facilities Use Permit Agreement with SDUSD. The terms of the new lease began July 1, 2015, and expire on June 30, 2020, and are calculated at two percent of revenues of the Charter School in accordance with substantially rent-free facilities under Proposition 39. The Charter School will make ten equal monthly rent and maintenance expense payments.

SUPPLEMENTARY INFORMATION

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2015

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Revised Second Period Report	Annual Report
Regular ADA		
Sixth	118.60	118.58
Seventh and eighth	<u>237.75</u>	<u>236.90</u>
Total Regular ADA	<u><u>356.35</u></u>	<u><u>355.48</u></u>
Classroom based ADA		
Sixth	118.60	118.58
Seventh and eighth	<u>237.75</u>	<u>236.90</u>
Total Classroom based ADA	<u><u>356.35</u></u>	<u><u>355.48</u></u>

The Charter School did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87	Reduced 1986-87	2014-15 Actual Minutes	Number of Days		Status
	Minutes Requirement	Minutes Requirement		Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,457				
Grade 6			63,970	180	N/A	Complied
Grade 7			63,970	180	N/A	Complied
Grade 8			63,970	180	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

FUND BALANCE

Balance, June 30, 2015, Unaudited Actuals	\$ 615,301
Increase in:	
Fixed Assets	<u>21,859</u>
Decrease in:	
Accounts receivable	(1,205)
Accounts payable and accrued payroll	<u>205,201</u>
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 841,156</u>

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

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

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the San Diego County Office of Education to the Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206, if applicable.

Charter schools must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance 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 (the Charter School) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements, and have issued our report thereon dated _____, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter School'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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School'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 Charter School'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.

As part of obtaining reasonable assurance about whether the Charter School'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 the Charter School in a separate letter dated _____, 2015.

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

Rancho Cucamonga, California
_____, 2015

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 San Diego's compliance with the types of compliance requirements as identified in the *2014-2015 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 the Charter School's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Charter School'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 *2014-2015 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 the Charter School'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 the Charter School's compliance with those requirements.

Unmodified Opinion

In our opinion, the Charter School 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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	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
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study	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

Testing procedures are not applicable to charter schools; therefore, we did not perform any related procedures.

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

The Charter School does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Determination of Funding for Non Classroom-Based Instruction.

The Charter did not receive funding related to the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
 _____, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy San Diego, for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated _____, 2015 on the financial statements of the Charter School.

Cash Collections - MSA SD

Observation

Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

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

Rancho Cucamonga, California
_____, 2015