

Agenda Item:	IV C: Action Item
Date:	January 18, 2024
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools (“MPS”) Board of Directors (the “Board”)
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead(s):	Steve Budhreja Ed.D, Chief Financial Officer
RE:	Approval of Interorganizational Loan Agreement Between MERF & MSA-Orange County (MSA-OC)

**Action Proposed:**

I move that the Board approve the loan agreement between the Magnolia Education and Research Foundation (MERF) and the proposed MSA-Orange County (MSA-OC), ensuring financial support for the new school during the first two years of its operation beginning in the 2024-25 fiscal year.

**Background:**

MPS is currently in the process of preparing petitions to expand schools into Orange County, California for the newly proposed Magnolia Science Academy Orange County (MSA-OC) school(s). These petitions require a comprehensive list of documents including proposed educational plans, preliminary budget and cashflow projections. Based on our projected cashflows, we anticipate needing to borrow funds from the Magnolia Educational & Research Foundation (MERF) to serve as a supportive financial structure to ensure smooth operation during the early stages of the operation. This agreement outlines a loan of up to \$2.0 million from MERF to MSA-OC with a 4% interest rate to be utilized as needed.

**Loan Agreement Summary:**

1. **Parties Involved:** MERF as the Lender and MSA-OC as the Borrower.
2. **Loan Amount:** \$2,000,000.
3. **Interest Rate:** 4% per annum.
4. **Repayment Terms:** Borrower shall pay accrued interest to lender by the 15<sup>th</sup> calendar day of each month. All outstanding loan amount plus interest shall be repaid in full on or before June 30, 2027.

**Budget Implications:**

There are no immediate budget implications as this resolution is to document the loan transaction between MERF and MSA-OC. Any outstanding loan amounts shall be included in the MPS quarterly financial statements.

**Exhibits (Attachments):**

Inter-Company Loan Agreement



## INTRAORGANIZATION LOAN AGREEMENT

This Intraorganization Loan Agreement (this “Agreement”) dated as of January 18, 2024, is entered into by Magnolia Science Academy— Orange County (“Borrower”) and Magnolia Educational & Research Foundation dba Magnolia Public Schools, a California nonprofit public benefit corporation and operator of Borrower (“MERF” or “Lender”).

### RECITALS

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

B. Lender and Borrower entered into an intraorganization loan (the “Loan”) as of 1/18/2024. As of the date of this Agreement, there is no unpaid principal balance of the Loan, however the Lender shall allow the Borrower a loan of up to \$2 million to assist in start-up operations for the MSA-OC School.

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

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

### AGREEMENT

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

1. The unpaid principal balance of the Loan outstanding from time to time shall bear interest from the date hereof until paid at the rate of four percent (4.0%) per annum, calculated on the basis of a 360-day year and a 30-day month. Borrower shall pay accrued interest to Lender monthly commencing on the first calendar month following the date of this Agreement by no later than the

fifteenth (15<sup>th</sup>) day of each calendar month.

2. Commencing on the first calendar month following the date of this Agreement, Borrower shall make monthly payments that includes principal and interest to Lender based on the outstanding balance at the time.

3. Borrower shall pay all remaining principal of the Loan and accrued interest thereon to Lender on or before 6/30/2027 (the "Maturity Date"). Borrower may prepay the Loan in whole or in part at any time at any time and from time to time to without premium or penalty.

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

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

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

**Lender:**

**Borrower:**

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

**Magnolia Science Academy— Orange County**

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

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

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

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

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

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