

Agenda Item:	II A: Recommended Action Item
Date:	January 18, 2024
To:	Magnolia Educational & Research Foundation dba Magnolia Public Schools (“MPS”) Audit & Facilities Committee (the “Committee”)
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead(s):	Steve Budhrajia Ed.D, Chief Financial Officer
RE:	Approval of 2022-23 Annual Audit Report for all Magnolia Science Academy Schools and the Home Office

Action Proposed:

I move that the Committee approve the 2022-23 Annual Audit Report for all Magnolia Science Academy (MSA) schools and the Home Office (MERF). Furthermore for the Committee to move and recommend that the Board approve and adopt the same.

Background:

Based on the California Education Code, MPS is required to file annual audit reports each year to the State and authorizing entities as noted below.

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

The MPS Audit Report for 22/23 noted the following...

- *Compliance with all instructional minutes’ requirements (pages 37-42)*
- *No Adjustments or restatements to fund balance from Unaudited Actuals (page 43)*
- *Approximately \$41.5 million of Cash on hand (227 days) as noted on (page 56)*
- *Unmodified Report (page 71)*

The audit report does note one finding related to the After School Education and Safety Program (ASES) in which there was some variance between monthly attendance summary data and the information that was reported to the State for MSA 8 and MSA San Diego. MPS staff has identified the issue and has developed a corrective action plan to prevent this occurrence in the future. There were no questioned costs associated with this matter.

Budget Implications:

None

Exhibits:

2022-23 Audit Report Consolidated for each MPS school and MERF.



Consolidated Financial Statements
June 30, 2023 and 2022

Magnolia Educational & Research Foundation

(Operating Magnolia Science Academy #0438,
Magnolia Science Academy 2 #0906,
Magnolia Science Academy 3 #0917,
Magnolia Science Academy 4 #0986,
Magnolia Science Academy 5 #0987,
Magnolia Science Academy 6 #0988,
Magnolia Science Academy 7 #0989,
Magnolia Science Academy Bell #1236,
Magnolia Science Academy Santa Ana #1686, and
Magnolia Science Academy San Diego #0698)



Magnolia Educational & Research Foundation

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June 30, 2023 and 2022

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Independent Auditor's Report

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Magnolia Educational & Research Foundation (the Organization) (a California Nonprofit Public Benefit Corporation), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 1 and Note 6 to the consolidated financial statements, the Organization has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases* and early adopted FASB Accounting Standards Update No. 2023-01, *Leases (Topic 842): Common Control Arrangements*, as of July 1, 2022 using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matters.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information such as the consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and other supplementary information on pages 27-60 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated Schedule of Expenditures of Federal Awards and other supplementary information is fairly stated in all material respects in relation to the consolidated 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 December 15, 2023 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 15, 2023

Magnolia Educational & Research Foundation
Consolidated Statement of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	\$ 41,517,716	\$ 29,396,853
Receivables	18,773,554	13,717,155
Prepaid expenses	349,445	59,413
Total current assets	60,640,715	43,173,421
Non-current assets		
Security deposit	110,000	110,000
Restricted cash	2,314,749	2,281,161
Property and equipment	80,259,046	52,199,330
Operating lease right-of-use asset	1,447,990	-
Finance lease right-of-use asset	1,229,948	-
Total non-current assets	85,361,733	54,590,491
Total assets	\$ 146,002,448	\$ 97,763,912
Liabilities		
Current liabilities		
Accounts payable	\$ 12,393,549	\$ 6,235,358
Accrued compensated absences	473,788	637,430
Interest payable	-	50,443
Refundable advance	10,466,215	3,853,442
Current portion of notes payable	114,583	109,583
Current portion of bonds payable	760,000	720,000
Current portion of operating lease liability	429,321	-
Current portion of finance lease liability	292,752	-
Current portion of revolving loan	246,906	242,040
Total current liabilities	25,177,114	11,848,296
Long-term liabilities		
Notes payable, less current portion	31,624,377	3,774,168
Bonds payable, less current portion and net of unamortized bond issuance costs	26,399,347	27,120,454
Operating lease liability, less current portion	1,018,229	-
Finance lease liability, less current portion	953,651	-
Revolving loan, less current portion	7,077,514	7,324,420
Total long-term liabilities	67,073,118	38,219,042
Total liabilities	92,250,232	50,067,338
Net Assets		
Without donor restrictions	53,752,216	47,696,574
Total liabilities and net assets	\$ 146,002,448	\$ 97,763,912

Magnolia Educational & Research Foundation

Consolidated Statement of Activities
Year Ended June 30, 2023 and 2022

	2023	2022
Support and Revenues		
Local Control Funding Formula	\$ 44,427,454	\$ 42,193,195
Federal revenue	7,495,567	13,322,665
Other state revenue	17,781,430	9,930,146
Local revenues	4,835,621	577,511
Interest income	485,432	35,200
Fundraising revenue	342,645	172,999
	<u>75,368,149</u>	<u>66,231,716</u>
Expenses		
Program services	48,959,750	44,379,556
Management and general	20,352,757	17,832,402
	<u>69,312,507</u>	<u>62,211,958</u>
Change in Net Assets	<u>6,055,642</u>	<u>4,019,758</u>
Net Assets, Beginning of Year	<u>47,696,574</u>	<u>43,676,816</u>
Net Assets, End of Year	<u>\$ 53,752,216</u>	<u>\$ 47,696,574</u>

Magnolia Educational & Research Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services	Management and General	Total Expenses
Salaries	\$ 23,849,941	\$ 10,549,242	\$ 34,399,183
Employee benefits	4,596,714	83,029	4,679,743
Payroll taxes	6,750,332	2,460,105	9,210,437
Fees for services	-	3,538,857	3,538,857
Advertising and promotions	-	330,292	330,292
Office expenses	405,969	533,380	939,349
Information technology	494,566	-	494,566
Occupancy	426,678	952,163	1,378,841
Travel	-	122,909	122,909
Interest	3,654,071	-	3,654,071
Depreciation and amortization	2,638,076	-	2,638,076
Amortization of right-of-use asset	308,774	-	308,774
Insurance	-	652,940	652,940
Other expenses	2,349,266	1,129,840	3,479,106
Capital outlay	817,998	-	817,998
Special education	1,100,354	-	1,100,354
Instructional materials	827,458	-	827,458
Nutrition	286,578	-	286,578
District oversight fees	452,975	-	452,975
	<u>\$ 48,959,750</u>	<u>\$ 20,352,757</u>	<u>\$ 69,312,507</u>
Total functional expenses			

Magnolia Educational & Research Foundation

Consolidated Statement of Cash Flows
Year Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ 6,055,642	\$ 4,019,758
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation and amortization expense	2,638,076	2,359,106
Finance lease amortization	308,774	-
Interest expense attributable to the amortization of bond issuance costs	38,893	26,080
Changes in operating assets and liabilities		
Receivables	(5,056,399)	(13,315)
Prepaid expenses	(290,032)	30,005
Accounts payable	6,158,188	1,478,722
Accrued compensated absences	(163,642)	139,392
Interest payable	(50,443)	(1,582)
Refundable advance	6,612,773	1,290,768
Operating lease assets and liabilities	1,437,192	-
Net Cash from (used for) Operating Activities	17,689,022	9,328,934
Investing Activities		
Purchases of property and equipment	(30,697,788)	(1,764,213)
Financing Activities		
Principal payments on notes	(109,583)	(104,583)
Principal payments on bonds	(720,000)	(685,000)
Principal payments on finance leases	(309,536)	-
Principal payments on revolving loan	(242,040)	(237,572)
Gain on sale and leaseback transaction	26,544,376	-
Net Cash from (used for) Financing Activities	25,163,217	(1,027,155)
Net Change in Cash, Cash Equivalents, and Restricted Cash	12,154,451	6,537,566
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	31,678,014	25,140,448
Cash, Cash Equivalents, and Restricted Cash, End of Year	\$ 43,832,465	\$ 31,678,014
Cash and cash equivalents	\$ 41,517,716	\$ 29,396,853
Cash restricted to Series 2014A and 2017A Bond Reserve Fund	2,314,749	2,281,161
Total Cash, Cash Equivalents, and Restricted Cash	\$ 43,832,465	\$ 31,678,014
Supplemental Cash Flow Disclosure		
Cash paid during the year in interest	\$ 3,654,071	\$ 2,151,671

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Magnolia Educational & Research Foundation (the Organization) is a California not-for-profit organization. During the fiscal year ended June 30, 2023, the Organization operated ten charter schools currently serving approximately 3,586 students in grades kindergarten through twelve throughout California. The Organization is 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 Organization offer the following programs, which are mostly free of charge:

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

The Organization operate under the approval of the California State Board of Education, Los Angeles 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.

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (MSA) was approved by the State of California Department of Education in 2002, and is located in 18238 Sherman Way, Reseda, California, 91335. MSA opened on September 3, 2002, and currently serves approximately 694 students in grades six through twelve. MSA was granted an extension by Los Angeles County Office of Education through June 30, 2024. MSA receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (MSA 2) was approved by the State of California Department of Education in 2007, and is located in 17125 Victory Boulevard, Van Nuys, California, 91406. MSA 2 opened on September 5, 2007, and currently serves approximately 511 students in grades six through twelve. MSA 2 was granted an extension by Los Angeles County Office of Education through June 30, 2024. MSA 2 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 3

Charter school number authorized by the State: 0917

Magnolia Science Academy 3 (MSA 3) was approved by the State of California Department of Education in 2007, and is located in 1254 East Helmick Street, Carson, California, 90746. MSA 3 opened on September 5, 2007, and currently serves approximately 379 students in grades six through twelve. MSA 3 was granted an extension by Los Angeles County Office of Education through June 30, 2024. MSA 3 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 4

Charter school number authorized by the State: 0986

Magnolia Science Academy 4 (MSA 4) was approved by the State of California Department of Education in 2008, and is located in 11330 West Graham Place, B-9, Los Angeles, California, 90064. MSA 4 opened on September 3, 2008, and currently serves approximately 102 students in grades nine through twelve. MSA 4 was granted an extension by Los Angeles Unified School District through June 30, 2025. MSA 4 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (MSA 5) was approved by the State of California Department of Education in 2008, and is located in 18238 Sherman Way, Reseda, California, 91335. MSA 5 opened on September 3, 2008, and currently serves approximately 238 students in grades six through twelve. MSA 5 was granted an extension by Los Angeles County Office of Education through June 30, 2025. MSA 5 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy 6 (MSA 6) was approved by the State of California Department of Education in 2009, and is located in 745 South Wilton Place, Los Angeles, California, 90005. MSA 6 opened on September 9, 2009, and currently serves approximately 91 students in grades six through eight. MSA 6 was granted an extension by Los Angeles Unified School District through June 30, 2026. MSA 6 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (MSA 7) was approved by the State of California Department of Education in 2010, and is located in 18355 Roscoe Boulevard, Northridge, California, 91325. MSA 7 opened on September 13, 2010, and currently serves approximately 263 students in grades kindergarten through five. MSA 7 was granted an extension by Los Angeles Unified School District through June 30, 2026. MSA 7 receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy Bell

Charter school number authorized by the State: 1236

Magnolia Science Academy Bell (MSA Bell) was approved by the State of California Department of Education in 2010, and is located in 6411 Orchard Avenue, Bell, California, 90201. MSA Bell opened on September 10, 2010, and currently serves approximately 384 students in grades six through eight. MSA Bell was granted an extension by Los Angeles Unified School District through June 30, 2027. MSA Bell receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 1686

Magnolia Science Academy Santa Ana (MSA Santa Ana) was approved by the State of California Department of Education in 2014, and is located in 2840 West 1st Street, Santa Ana, 92703, California. MSA Santa Ana opened on August 1, 2014 and currently serves approximately 502 students in grades kindergarten through twelve. MSA Santa Ana was granted an extension by California Department of Education through June 30, 2026. MSA Santa Ana receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego (MSA San Diego) was approved by the State of California Department of Education in 2005, and is located in 6525 Estrella Avenue, San Diego, 92120, California. MSA San Diego opened on September 6, 2005 and currently serves approximately 422 students in grades six through eight. MSA San Diego was granted an extension by San Diego Unified School District through June 30, 2027. MSA San Diego receives public per-pupil funding to help support their operations and is economically dependent on Federal and State funding.

Other Related Entity

Magnolia Properties Management, Inc. (MPM Inc.)

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

MPM Sherman Way, LLC

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

MPM Santa Ana, LLC

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

MPM San Diego, LLC

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

MPM Sherman Winnetka, LLC

The Organization formed the MPM Sherman Winnetka, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. MPM Inc. is the sole member of the LLC.

MPM 16600 Vanowen Street, LLC

The Organization formed the MPM 16600 Vanowen Street, LLC exclusively for the acquisition of property and assets of the Organization, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of the Organization. MPM Inc. is the sole member of the LLC.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and the Subsidiaries, of which include MSA, MSA 2, MSA 3, MSA 4, MSA 5, MSA 6, MSA 7, MSA Bell, MSA Santa Ana, MSA San Diego, MPM, Inc., MPM Sherman Way, LLC, MPM Santa Ana, LLC, MPM San Diego, LLC, MPM Sherman Winnetka, LLC, and MPM 16600 Vanowen Street, LLC. All significant intra-entity accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization.

Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organization's audited consolidated financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Basis of Accounting

The accompanying consolidated financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state programs.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization did not have net assets with donor restrictions for the year ended June 30, 2023.

Cash and Cash Equivalents

The Organization considers all cash including cash in County Investment Pool and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to bond reserve funds or other long-term purposes are excluded from this definition.

Restricted Cash

Non-current restricted cash in the amount of \$2,314,749 relates to the debt service reserve requirements related to the Charter School Revenue Bonds and is held as non-current to satisfy the long-term obligation.

Concentration of Credit Risk

The Organization maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023, the Organization had approximately \$42,998,040, in excess of FDIC-insured limits.

Receivables and Credit Policies

Receivables consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable receivables based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectable. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding receivables as of June 30, 2023 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intra-Entity Transactions

Intra-entity transactions results from a net cumulative difference between resources provided by the home office account to each charter school and reimbursement for those resources from each charter school to the home office account. Intra-entity transfers include certain costs of shared liabilities and shared assets between the Organization.

Capital Contribution

MSA invested \$161,923 in a capital contribution to the MPM Sherman Way, LLC as an investment for the building improvement located at 18238 Sherman Way in the city of Reseda, CA 91335 for its campus location.

MSA Santa Ana invested \$75,554 in a capital contribution to the MPM Santa Ana, LLC as an investment for the building improvement located at 2840 West 1st Street in the city of Santa Ana, CA 92703 for its campus location.

MSA San Diego invested \$198,191 in a capital contribution to the MPM San Diego. LLC as an investment for the building improvement located at 6525 Estrella Avenue in the city of San Diego, CA 92120 for its campus location.

Property and Equipment

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

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2023.

Revenue and Revenue Recognition

Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received.

A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position. At June 30, 2023, there were no conditional contributions for which no amounts had been received in advance.

The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extended the credit through September 30, 2021, and increased the credit to 70% of qualified wages, capped at \$7,000 per quarter. As a result of the changes to the credit, the maximum credit per employee increased from \$10,000 in 2020 to \$21,000 in 2021. During the year ended June 30, 2023, the Organization recorded a \$6,883,252 benefit related to the credit which is presented in the statement of activities as local revenues.

The Organization has elected to account for the credits by applying FASB ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*. Under this method, the Organization records contribution revenue when the contribution is deemed to be unconditional, that is when there is no longer a measurable performance or other barrier and a right of return or release from obligation to pay the contribution. Management has determined that the contribution is unconditional.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable approximation of the effective interest method. Debt issuance costs are included within bonds payable in the consolidated statement of financial position. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated financial statements.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2023.

Functional Allocation of Expenses

The consolidated financial statements report categories of expenses that are attributed to program service activities or supporting services activities such as management and general activities and fundraising and development activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include salaries, employee benefits, payroll taxes, office expenses, occupancy, and other expenses, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

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

Change in Accounting Principle

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The Organization elected to apply the guidance as of July 1, 2022, the beginning of the adoption period. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the consolidated statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

Note 2 - Liquidity and Availability

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

	2023	2022
Cash and cash equivalents	\$ 41,517,716	\$ 29,396,853
Receivables	18,773,554	13,717,155
Total	\$ 60,291,270	\$ 43,114,008

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2023 and 2022:

	2023	2022
Land	\$ 26,531,646	\$ 2,566,854
Leasehold improvements	4,185,549	3,545,828
Building	53,698,460	49,276,682
Computer and equipment	6,402,530	6,315,230
Work in progress	2,253,123	668,926
Total property and equipment	93,071,308	62,373,520
Less accumulated depreciation and amortization	(12,812,262)	(10,174,190)
Total	\$ 80,259,046	\$ 52,199,330

Note 4 - Notes Payable

Notes payable consist of the following at June 30, 2023:

Note payable, due in monthly installments of \$42,708, principal and interest at 10%, collateralized by the Magnolia Science Academy Santa Ana school facility with a carrying value of \$11,389,575; maturing July 1, 2044.	\$ 3,774,168
Note payable, due in full up to \$24,000,000, principal and interest at 9.50%, maturing December 1, 2026, secured by property purchased, 7111 Winnetka Avenue, Winnetka, California and 18242-18244 Sherman Way, Reseda, California.	13,314,792
Note payable, due in full up to \$27,000,000, principal and interest at 9.50%, maturing February 1, 2028, secured by property purchased, 16600 Vanowen Street, Van Nuys, California.	<u>14,650,000</u>
Total	<u><u>\$ 31,738,960</u></u>

Future maturities of notes payable are as follows:

Year Ending June 30,	Principal
2024	\$ 114,583
2025	119,583
2026	129,167
2027	10,199,375
2028	18,016,667
Thereafter	<u>3,159,585</u>
Total	<u><u>\$ 31,738,960</u></u>

Note 5 - Bonds Payable**Charter School Facilities Revenue Bonds, Series 2014A and 2014B**

On June 26, 2014, the Organization issued \$6,020,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate ranging from 5.25 to 7.00 percent. Unamortized bonds issuance costs are amortized an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.

\$ 5,265,000

Charter School Facilities Revenue Bonds, Series 2017A

On September 6, 2017, the Organization issued \$25,000,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate of 5.25 percent. Unamortized bonds issuance costs are amortized based on an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.

22,750,000

Subtotal outstanding bonds

28,015,000

Bond issuance costs on Charter School Facilities Revenue Bonds,
Series 2014A and 2014B

(281,900)

Bond issuance costs on Charter School Facilities Revenue Bonds,
Series 2017A

(573,753)

Subtotal debt issuance costs on bonds

(855,653)

Total

\$ 27,159,347

Future maturities of bonds payable are as follows:

Year Ending June 30,	Principal
2024	\$ 760,000
2025	800,000
2026	845,000
2027	890,000
2028	935,000
Thereafter	23,785,000
	28,015,000
Less unamortized debt issuance costs	(855,653)
Total	\$ 27,159,347

Note 6 - Leases

The Organization leases certain real property for the operations of the charter school and equipment at various terms under long-term non-cancelable operating lease and finance lease agreements. The leases expire at various dates through 2057 and provide for renewal options ranging from 1 year to 5 years. The Organization includes in the determination of the right-of-use assets and lease liabilities any renewal options reasonably certain to be exercised. The Organization's operating lease provides for increases in future minimum annual rental payments. Additionally, the operating lease agreement requires the Organization to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. If the implicit rate is not readily determinable from the lease, the Organization estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Organization's applicable borrowing rates and the contractual lease term.

The lease agreements also require the Organization to comply with certain covenants and to maintain certain financial ratios. As of June 30, 2023, the Organization was in compliance with all ratios and covenants.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Magnolia Educational & Research Foundation

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The Organization elected the practical expedient to not separate lease and non-lease components for real property and equipment leases.

Total lease costs for the year ended June 30, 2023 were as follows:

Operating lease cost	\$ 474,437
Finance lease cost	316,020
Interest expense	62,680
Amortization of right-of-use assets	269,881
Gain (loss) on sale and leaseback transaction	26,544,376

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 474,876
Operating cash flows from finance leases	316,020
Financing cash flows from finance leases	309,536
Right-of-use assets obtained in exchange for lease liabilities	
Finance leases	\$ 1,374,951

The following summarizes the weighted-average remaining lease term and weighted-average discount rate:

Weighted-average remaining lease term	
Operating leases	27.4 Years
Finance leases	17.6 Years
Weighted-average discount rate	
Operating leases	4.95%
Finance leases	4.95%

The future minimum lease payments under noncancelable operating and finance leases with terms greater than one year are listed below as of June 30, 2023:

	June 30, 2023	
	Operating	Finance
2024	\$ 449,662	\$ 346,998
2025	446,716	334,854
2026	202,977	334,348
2027	192,242	329,922
2028	195,014	27,228
Thereafter	124,408	-
Total lease payments	1,611,019	1,373,350
Less interest	(163,469)	(126,947)
Present value of lease liabilities	\$ 1,447,550	\$ 1,246,403

Note 7 - Revolving Loan

MSA Santa Ana has been approved by the State of California’s Charter School Facilities Program (CCSFP) for \$17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50% of the total amount of \$17,413,956; the State will fund 50% of the total project cost through a loan in the amount of \$8,706,990 and the other 50% through a grant in the amount of \$8,706,978. The loan has an annual interest rate of 3.00% and it matures 30 years after the completion of the project.

The future minimum payments are as follows:

Year Ending June 30,	Principal
2024	\$ 246,906
2025	251,869
2026	256,931
2027	262,096
2028	267,364
Thereafter	6,039,254
Total	\$ 7,324,420

Note 8 - 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 details of each plan are as follows:

California State Teachers’ Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% 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 Organization 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, 2023, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after 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	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

Contributions

Required member, the Organization, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contribution 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2023, are presented above and the Organization's total contributions were \$4,146,658.

California Public Employees Retirement System (CalPERS)**Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2021, annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2023, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after 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	7.00%	8.00%
Required employer contribution rate	25.37%	25.37%

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 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 Organization 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, 2023, are presented above and the total Organization's contributions were \$1,571,974.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,036,828 (10.828% of annual payroll). 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.

Social Security

Public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) are covered by social security or an alternative plan. The Organization has elected to use the social security as its alternative plan.

Note 9 - Contingencies, Risks, and Uncertainties

The Organization 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.

The Organization applied for and received loan forgiveness from the SBA on its PPP loan of \$5,461,600. In accordance PPP loan requirements, the Organization is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Organization is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

The Organization's credit filings remain open for potential examination by the Internal Revenue Service through the statute of limitations, which has varying expiration dates extending through 2027. Any disallowed claims resulting from such examinations could be subject to repayment to the federal government.

Note 10 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through December 15, 2023, 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
June 30, 2023

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture Passed Through California Department of Education (CDE) COVID-19: Pandemic EBT Local Administrative Grant	10.649	15644	\$ 9,405
Total U.S. Department of Agriculture			<u>9,405</u>
U.S. Federal Communications Commission COVID-19: Emergency Connectivity Funds	32.009	[1]	<u>164,933</u>
Total U.S. Federal Communications Commission			<u>164,933</u>
U.S. Department of Education Passed Through CDE Title I, Part A	84.010	14329	<u>1,309,220</u>
Special Education Cluster (IDEA) Special Education Grants to States - Basic Local Assistance	84.027	13379	<u>747,603</u>
Total Special Education Cluster (IDEA)			<u>747,603</u>
State Charter School Facilities Incentive Grant Program	84.282	15385	62,551
English Language Acquisition State Grants - ISP	84.365	15146	4,073
English Language Acquisition State Grants - LEP	84.365	14346	<u>97,703</u>
Subtotal			<u>101,776</u>
Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	159,452
Student Support and Academic Enrichment Program	84.424	15396	126,934

Magnolia Educational & Research Foundation
 Consolidated Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
COVID-19: Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D	15547	\$ 638,325
COVID-19: ARP Elementary and Secondary School Emergency Relief III (ESSER III) Fund: Learning Loss	84.425U	10155	1,294,702
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425D	15559	2,737,419
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund: State Reserve, Emergency Needs	84.425D	15620	32,424
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund: State Reserve, Learning Loss	84.425D	15621	14,653
COVID-19: Elementary and Secondary School Emergency Relief III (ESSER III) Fund State Reserve Summer Learning Programs	84.425D	15619	85,759
COVID-19: ARP Homeless Children and Youth II (ARP HYC II)	84.425W	15566	<u>2,609</u>
Subtotal			<u>4,805,891</u>
Total U.S. Department of Education			<u>7,313,427</u>

Magnolia Educational & Research Foundation
 Consolidated Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed Through California Department of Health and Human Services			
Child Care and Development Fund Cluster			
COVID-19: Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	[1]	<u>\$ 7,802</u>
Total U.S. Department of Health and Human Services			<u>7,802</u>
Total Federal Financial Assistance			<u><u>\$ 7,495,567</u></u>

ORGANIZATION

The Organization operates ten schools in California. Each school is operated on the same tax identification number as the Organization. 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, 2023, the schools operated by the Organization were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Students Served
Magnolia Science Academy	0438	Los Angeles County Office of Education	June 30, 2024	6 - 12	694
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2024	6 - 12	511
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2024	6 - 12	379
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2025	9 - 12	102
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2025	6 - 12	238
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2026	6 - 8	91
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2026	K - 5	263
Magnolia Science Academy Bell	1236	Los Angeles Unified School District	June 30, 2027	6 - 8	384
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2026	K - 12	502
Magnolia Science Academy San Diego	0698	San Diego Unified School District	June 30, 2027	6 - 8	422

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mekan Muhammedov	Chair	April 2025
Sandra Covarrubias	Vice Chair	August 2027
Umit Yapanel, Ph.D.	Member	October 2027
Salih Dikbas, Ph.D.	Member	December 2024
Diane Gonzalez	Member	December 2024
Esra Eldem-Tunc	Member	June 2027

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer and Superintendent
Steve Budhreja	Chief Financial Officer

Magnolia Educational & Research Foundation
 Schedule of Average Daily Attendance
 Year Ended June 30, 2023

Magnolia Science Academy

	Second Period Report B1707EC1	Annual Report 8A5CAA5D
Regular ADA		
Sixth	100.34	101.56
Seventh and eighth	224.17	225.21
Ninth through twelfth	324.60	322.85
Total Regular ADA	649.11	649.62
Classroom Based ADA		
Sixth	100.34	101.56
Seventh and eighth	224.17	225.21
Ninth through twelfth	324.39	322.63
Total Classroom Based ADA	648.90	649.40

Magnolia Science Academy 2

	Second Period Report 26A843282	Annual Report A0B2E52
Regular ADA		
Sixth	97.83	97.64
Seventh and eighth	180.84	181.44
Ninth through twelfth	194.56	194.16
Total Regular ADA	473.23	473.24
Classroom Based ADA		
Sixth	97.54	97.22
Seventh and eighth	178.77	179.60
Ninth through twelfth	192.30	191.41
Total Classroom Based ADA	468.61	468.23

Magnolia Educational & Research Foundation
 Schedule of Average Daily Attendance
 Year Ended June 30, 2023

Magnolia Science Academy 3

	<u>Second Period Report 2CCFC36</u>	<u>Annual Report F6928C0B</u>
Regular ADA		
Sixth	30.93	29.72
Seventh and eighth	110.67	110.27
Ninth through twelfth	<u>198.00</u>	<u>196.20</u>
Total Regular ADA	<u><u>339.60</u></u>	<u><u>336.19</u></u>
Classroom Based ADA		
Sixth	30.87	29.65
Seventh and eighth	110.60	110.22
Ninth through twelfth	<u>195.99</u>	<u>194.15</u>
Total Classroom Based ADA	<u><u>337.46</u></u>	<u><u>334.02</u></u>

Magnolia Science Academy 4

	<u>Second Period Report 7C0247EC</u>	<u>Annual Report 1B409AA5</u>
Regular ADA		
Ninth through twelfth	<u>93.21</u>	<u>93.36</u>
Classroom Based ADA		
Ninth through twelfth	<u><u>88.30</u></u>	<u><u>93.36</u></u>

Magnolia Educational & Research Foundation
 Schedule of Average Daily Attendance
 Year Ended June 30, 2023

Magnolia Science Academy 5

	<u>Second Period Report B7F8AD32</u>	<u>Annual Report 6F4989F2</u>
Regular ADA		
Sixth	24.81	24.42
Seventh and eighth	76.87	77.52
Ninth through twelfth	<u>110.19</u>	<u>109.19</u>
Total Regular ADA	<u><u>211.87</u></u>	<u><u>211.13</u></u>
Classroom Based ADA		
Sixth	24.81	24.42
Seventh and eighth	76.87	77.52
Ninth through twelfth	<u>110.19</u>	<u>109.14</u>
Total Classroom Based ADA	<u><u>211.87</u></u>	<u><u>211.08</u></u>

Magnolia Science Academy 6

	<u>Second Period Report 5F6D779</u>	<u>Annual Report 1EDAA049</u>
Regular ADA		
Sixth	31.80	32.41
Seventh and eighth	<u>51.47</u>	<u>51.71</u>
Total Regular ADA	<u><u>83.27</u></u>	<u><u>84.12</u></u>
Classroom Based ADA		
Sixth	31.80	32.41
Seventh and eighth	<u>51.47</u>	<u>51.71</u>
Total Classroom Based ADA	<u><u>83.27</u></u>	<u><u>84.12</u></u>

Magnolia Educational & Research Foundation
Schedule of Average Daily Attendance
Year Ended June 30, 2023

Magnolia Science Academy 7

	Second Period Report B060EB7	Annual Report 9B274366
Regular ADA		
Transitional kindergarten through third	158.58	159.29
Fourth through fifth	85.32	85.47
Total regular ADA	243.90	244.76
Classroom Based ADA		
Transitional kindergarten through third	158.45	159.29
Fourth through fifth	85.29	85.47
Total classroom based ADA	243.74	244.76

Magnolia Science Academy Bell

	Second Period Report CD56468D	Annual Report 8C735C19
Regular ADA		
Sixth	92.19	92.00
Seventh and eighth	260.37	260.07
Total Regular ADA	352.56	352.07
Classroom Based ADA		
Sixth	92.19	92.00
Seventh and eighth	260.31	260.07
Total Classroom Based ADA	352.50	352.07

Magnolia Educational & Research Foundation
 Schedule of Average Daily Attendance
 Year Ended June 30, 2023

Magnolia Science Academy Santa Ana

	Second Period Report 31CCC3CD	Annual Report CF024CE7
Regular ADA		
Transitional kindergarten through third	119.32	119.55
Fourth through sixth	113.52	113.63
Seventh and eighth	78.41	78.28
Ninth through twelfth	155.47	154.49
Total Regular ADA	466.72	465.95
Classroom Based ADA		
Transitional kindergarten through third	118.24	118.57
Fourth through sixth	112.90	113.11
Seventh and eighth	78.15	78.07
Ninth through twelfth	154.83	153.94
Total Classroom Based ADA	464.12	463.69

Magnolia Science Academy San Diego

	Second Period Report 26ED40D	Annual Report CCDE8ABF
Regular ADA		
Sixth	118.11	118.54
Seventh and eighth	271.85	271.74
Total Regular ADA	389.96	390.28
Classroom Based ADA		
Sixth	118.11	118.54
Seventh and eighth	271.85	271.74
Total Classroom Based ADA	389.96	390.28

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		65,236	-	65,236	185	-	-	185	Complied
Grade 7		66,564	-	66,564	185	-	-	185	Complied
Grade 8		66,564	-	66,564	185	-	-	185	Complied
Grades 9 - 12	64,800								
Grade 9		66,564	-	66,564	185	-	-	185	Complied
Grade 10		66,564	-	66,564	185	-	-	185	Complied
Grade 11		66,564	-	66,564	185	-	-	185	Complied
Grade 12		66,564	-	66,564	185	-	-	185	Complied

Magnolia Science Academy 2

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		65,240	-	65,240	185	-	-	185	Complied
Grade 7		65,240	-	65,240	185	-	-	185	Complied
Grade 8		65,240	-	65,240	185	-	-	185	Complied
Grades 9 - 12	64,800								
Grade 9		65,240	-	65,240	185	-	-	185	Complied
Grade 10		65,240	-	65,240	185	-	-	185	Complied
Grade 11		65,240	-	65,240	185	-	-	185	Complied
Grade 12		65,240	-	65,240	185	-	-	185	Complied

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy 3

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		65,910	-	65,910	185	-	-	185	Complied
Grade 7		65,910	-	65,910	185	-	-	185	Complied
Grade 8		65,910	-	65,910	185	-	-	185	Complied
Grades 9 - 12	64,800								
Grade 9		65,910	-	65,910	185	-	-	185	Complied
Grade 10		65,910	-	65,910	185	-	-	185	Complied
Grade 11		65,910	-	65,910	185	-	-	185	Complied
Grade 12		65,910	-	65,910	185	-	-	185	Complied

Magnolia Science Academy 4

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 9 - 12	64,800								
Grade 9		65,919	-	65,919	185	-	-	185	Complied
Grade 10		65,919	-	65,919	185	-	-	185	Complied
Grade 11		65,919	-	65,919	185	-	-	185	Complied
Grade 12		65,919	-	65,919	185	-	-	185	Complied

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy 5

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		65,260	-	65,260	185	-	-	185	Complied
Grade 7		65,260	-	65,260	185	-	-	185	Complied
Grade 8		65,260	-	65,260	185	-	-	185	Complied
Grades 9 - 12	64,800								
Grade 9		65,260	-	65,260	185	-	-	185	Complied
Grade 10		65,260	-	65,260	185	-	-	185	Complied
Grade 11		65,260	-	65,260	185	-	-	185	Complied
Grade 12		65,260	-	65,260	185	-	-	185	Complied

Magnolia Science Academy 6

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		55,750	-	55,750	180	-	-	180	Complied
Grade 7		55,750	-	55,750	180	-	-	180	Complied
Grade 8		55,750	-	55,750	180	-	-	180	Complied

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy 7

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Kindergarten	36,000	56,220	-	56,220	180	-	-	180	Complied
Grades 1 - 3	50,400								
Grade 1		56,220	-	56,220	180	-	-	180	Complied
Grade 2		56,220	-	56,220	180	-	-	180	Complied
Grade 3		56,220	-	56,220	180	-	-	180	Complied
Grades 4 - 5	54,000								
Grade 4		56,220	-	56,220	180	-	-	180	Complied
Grade 5		56,220	-	56,220	180	-	-	180	Complied

Magnolia Science Academy Bell

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		59,265	-	59,265	180	-	-	180	Complied
Grade 7		59,265	-	59,265	180	-	-	180	Complied
Grade 8		59,265	-	59,265	180	-	-	180	Complied

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy Santa Ana

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Kindergarten	36,000	56,305	-	56,305	179	-	-	179	Complied
Grades 1 - 3	50,400								
Grade 1		56,305	-	56,305	179	-	-	179	Complied
Grade 2		56,305	-	56,305	179	-	-	179	Complied
Grade 3		56,305	-	56,305	179	-	-	179	Complied
Grades 6 - 8	54,000								
Grade 4		56,305	-	56,305	179	-	-	179	Complied
Grade 5		56,305	-	56,305	179	-	-	179	Complied
Grade 6		56,305	-	56,305	179	-	-	179	Complied
Grade 7		65,400	-	65,400	179	-	-	179	Complied
Grade 8		65,400	-	65,400	179	-	-	179	Complied
Grades 9 - 12	64,800								
Grade 9		65,400	-	65,400	179	-	-	179	Complied
Grade 10		65,400	-	65,400	179	-	-	179	Complied
Grade 11		65,400	-	65,400	179	-	-	179	Complied
Grade 12		65,400	-	65,400	179	-	-	179	Complied

Magnolia Educational & Research Foundation

Schedule of Instructional Time

Year Ended June 30, 2023

Magnolia Science Academy San Diego

Grade Level	1986-1987 Minutes Requirement	2022-2023 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Number of Days		Number of Days Credited Form J-13A	Total Days Offered	Status
					Traditional Calendar	Multitrack Calendar			
Grades 6 - 8	54,000								
Grade 6		60,377	-	60,377	180	-	-	180	Complied
Grade 7		60,377	-	60,377	180	-	-	180	Complied
Grade 8		60,377	-	60,377	180	-	-	180	Complied

Magnolia Educational & Research Foundation
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2023

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2023.

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2023 and 2022

	MERF	MSA	MSA 2
Assets			
Current assets			
Cash and cash equivalents	\$ 1,880,254	\$ 7,082,543	\$ 3,171,900
Receivables	2,480,183	4,189,553	2,909,769
Intra-entity receivable	471,764	687,436	69,948
Prepaid expenses	25,872	16,765	175,858
Total current assets	<u>4,858,073</u>	<u>11,976,297</u>	<u>6,327,475</u>
Non-current assets			
Security deposit	100,000	-	-
Capital contribution	-	161,923	-
Restricted cash	-	-	-
Property and equipment	13,526	4,913,790	155,694
Operating lease right-of-use asset	903,794	6,613,841	11,793
Finance lease right-of-use asset	-	17,652,472	23,261,322
Total non-current assets	<u>1,017,320</u>	<u>29,342,026</u>	<u>23,428,809</u>
Total assets	<u>\$ 5,875,393</u>	<u>\$ 41,318,323</u>	<u>\$ 29,756,284</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 697,132	\$ 3,910,316	\$ 2,024,718
Accrued compensated absences	-	80,781	66,454
Interest payable	-	-	-
Refundable advance	-	2,063,481	1,386,790
Intra-entity payable	711,847	571,540	67,269
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of operating lease liability	158,987	295,278	4,985
Current portion of finance lease liability	-	62,618	139,153
Current portion of revolving loan	-	-	-
Total current liabilities	<u>1,567,966</u>	<u>6,984,014</u>	<u>3,689,369</u>
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Operating lease liability, less current portion	744,368	5,683,324	6,808
Finance lease liability, less current portion	-	17,645,200	20,417,847
Revolving loan, less current portion	-	-	-
Total long-term liabilities	<u>744,368</u>	<u>23,328,524</u>	<u>20,424,655</u>
Total liabilities	<u>2,312,334</u>	<u>30,312,538</u>	<u>24,114,024</u>
Net Assets			
Without donor restrictions	<u>3,563,059</u>	<u>11,005,785</u>	<u>5,642,260</u>
Total liabilities and net assets	<u>\$ 5,875,393</u>	<u>\$ 41,318,323</u>	<u>\$ 29,756,284</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2023 and 2022

	MSA 3	MSA 4	MSA 5
Assets			
Current assets			
Cash and cash equivalents	\$ 3,240,633	\$ 1,599,759	\$ 4,234,391
Receivables	2,076,614	626,957	1,533,034
Intra-entity receivable	21,485	102,315	399,172
Prepaid expenses	12,709	14,171	12,000
Total current assets	<u>5,351,441</u>	<u>2,343,202</u>	<u>6,178,597</u>
Non-current assets			
Security deposit	-	-	-
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment	228,117	46,751	1,173,214
Operating lease right-of-use asset	2,231	11,932	216,846
Finance lease right-of-use asset	14,809	-	-
Total non-current assets	<u>245,157</u>	<u>58,683</u>	<u>1,390,060</u>
Total assets	<u>\$ 5,596,598</u>	<u>\$ 2,401,885</u>	<u>\$ 7,568,657</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 1,443,844	\$ 548,657	\$ 1,068,863
Accrued compensated absences	54,172	23,820	26,624
Interest payable	-	-	-
Refundable advance	793,052	340,058	746,934
Intra-entity payable	34,374	28,545	176,897
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of operating lease liability	2,231	3,374	245,899
Current portion of finance lease liability	5,911	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	<u>2,333,584</u>	<u>944,454</u>	<u>2,265,217</u>
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Operating lease liability, less current portion	-	8,558	-
Finance lease liability, less current portion	8,898	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	<u>8,898</u>	<u>8,558</u>	<u>-</u>
Total liabilities	<u>2,342,482</u>	<u>953,012</u>	<u>2,265,217</u>
Net Assets			
Without donor restrictions	<u>3,254,116</u>	<u>1,448,873</u>	<u>5,303,440</u>
Total liabilities and net assets	<u>\$ 5,596,598</u>	<u>\$ 2,401,885</u>	<u>\$ 7,568,657</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2023 and 2022

	MSA 6	MSA 7	MSA Bell
Assets			
Current assets			
Cash and cash equivalents	\$ 2,993,077	\$ 2,865,843	\$ 6,786,891
Receivables	509,835	1,452,925	2,174,059
Intra-entity receivable	23,563	82,584	1,014,263
Prepaid expenses	12,521	37,856	12,274
Total current assets	<u>3,538,996</u>	<u>4,439,208</u>	<u>9,987,487</u>
Non-current assets			
Security deposit	10,000	-	-
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment	21,076	768,909	191,893
Operating lease right-of-use asset	2,651	15,623	1,527
Finance lease right-of-use asset	-	1,137,259	4,393
Total non-current assets	<u>33,727</u>	<u>1,921,791</u>	<u>197,813</u>
Total assets	<u>\$ 3,572,723</u>	<u>\$ 6,360,999</u>	<u>\$ 10,185,300</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 401,385	\$ 709,893	\$ 1,517,057
Accrued compensated absences	35,901	30,404	44,894
Interest payable	-	-	-
Refundable advance	256,997	1,126,025	931,151
Intra-entity payable	26,856	66,249	81,397
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of operating lease liability	2,651	5,102	1,526
Current portion of finance lease liability	-	247,428	1,421
Current portion of revolving loan	-	-	-
Total current liabilities	<u>723,790</u>	<u>2,185,101</u>	<u>2,577,446</u>
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Operating lease liability, less current portion	-	10,521	-
Finance lease liability, less current portion	-	906,283	2,973
Revolving loan, less current portion	-	-	-
Total long-term liabilities	<u>-</u>	<u>916,804</u>	<u>2,973</u>
Total liabilities	<u>723,790</u>	<u>3,101,905</u>	<u>2,580,419</u>
Net Assets			
Without donor restrictions	<u>2,848,933</u>	<u>3,259,094</u>	<u>7,604,881</u>
Total liabilities and net assets	<u>\$ 3,572,723</u>	<u>\$ 6,360,999</u>	<u>\$ 10,185,300</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2023 and 2022

	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC
Assets			
Current assets			
Cash and cash equivalents	\$ 3,317,444	\$ 1,964,663	\$ 2,380,318
Receivables	1,520,016	1,225,382	51,046,588
Intra-entity receivable	86,927	18,485	-
Prepaid expenses	16,261	13,158	-
Total current assets	<u>4,940,648</u>	<u>3,221,688</u>	<u>53,426,906</u>
Non-current assets			
Security deposit	-	-	-
Capital contribution	75,554	198,191	-
Restricted cash	-	-	2,314,749
Property and equipment	19,139,607	182,123	53,424,346
Operating lease right-of-use asset	11,808	470,748	-
Finance lease right-of-use asset	-	6,616,661	-
Total non-current assets	<u>19,226,969</u>	<u>7,467,723</u>	<u>55,739,095</u>
Total assets	<u>\$ 24,167,617</u>	<u>\$ 10,689,411</u>	<u>\$ 109,166,001</u>
Liabilities			
Current liabilities			
Accounts payable	\$ 1,031,294	\$ 965,163	\$ -
Accrued compensated absences	74,886	35,852	-
Interest payable	-	-	-
Refundable advance	1,731,798	640,149	449,780
Intra-entity payable	691,776	521,192	-
Current portion of notes payable	114,583	-	-
Current portion of bonds payable	-	-	760,000
Current portion of operating lease liability	5,297	230,285	-
Current portion of finance lease liability	-	165,389	-
Current portion of revolving loan	246,906	-	-
Total current liabilities	<u>3,896,540</u>	<u>2,558,030</u>	<u>1,209,780</u>
Long-term liabilities			
Notes payable, less current portion	3,659,585	-	27,964,792
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	26,399,347
Operating lease liability, less current portion	6,512	240,463	-
Finance lease liability, less current portion	-	6,481,251	-
Revolving loan, less current portion	7,077,514	-	-
Total long-term liabilities	<u>10,743,611</u>	<u>6,721,714</u>	<u>54,364,139</u>
Total liabilities	<u>14,640,151</u>	<u>9,279,744</u>	<u>55,573,919</u>
Net Assets			
Without donor restrictions	<u>9,527,466</u>	<u>1,409,667</u>	<u>53,592,082</u>
Total liabilities and net assets	<u>\$ 24,167,617</u>	<u>\$ 10,689,411</u>	<u>\$ 109,166,001</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Financial Position
June 30, 2023 and 2022

	Eliminations	2023 Consolidated	2022 Consolidated
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ 41,517,716	\$ 29,396,853
Receivables	(52,971,361)	18,773,554	13,717,155
Intra-entity receivable	(2,977,942)	-	-
Prepaid expenses	-	349,445	59,413
Total current assets	<u>(55,949,303)</u>	<u>60,640,715</u>	<u>43,173,421</u>
Non-current assets			
Security deposit	-	110,000	110,000
Capital contribution	(435,668)	-	-
Restricted cash	-	2,314,749	2,281,161
Property and equipment	-	80,259,046	52,199,330
Operating lease right-of-use asset	(6,814,804)	1,447,990	-
Finance lease right-of-use asset	(47,456,968)	1,229,948	-
Total non-current assets	<u>(54,707,440)</u>	<u>85,361,733</u>	<u>54,590,491</u>
Total assets	<u>\$ (110,656,743)</u>	<u>\$ 146,002,448</u>	<u>\$ 97,763,912</u>
Liabilities			
Current liabilities			
Accounts payable	\$ (1,924,773)	\$ 12,393,549	\$ 6,235,358
Accrued compensated absences	-	473,788	637,430
Interest payable	-	-	50,443
Refundable advance	-	10,466,215	3,853,442
Intra-entity payable	(2,977,942)	-	-
Current portion of notes payable	-	114,583	109,583
Current portion of bonds payable	-	760,000	720,000
Current portion of operating lease liability	(526,294)	429,321	-
Current portion of finance lease liability	(329,168)	292,752	-
Current portion of revolving loan	-	246,906	242,040
Total current liabilities	<u>(5,758,177)</u>	<u>25,177,114</u>	<u>11,848,296</u>
Long-term liabilities			
Notes payable, less current portion	-	31,624,377	3,774,168
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	26,399,347	27,120,454
Operating lease liability, less current portion	(5,682,325)	1,018,229	-
Finance lease liability, less current portion	(44,508,801)	953,651	-
Revolving loan, less current portion	-	7,077,514	7,324,420
Total long-term liabilities	<u>(50,191,126)</u>	<u>67,073,118</u>	<u>38,219,042</u>
Total liabilities	<u>(55,949,303)</u>	<u>92,250,232</u>	<u>50,067,338</u>
Net Assets			
Without donor restrictions	<u>(54,707,440)</u>	<u>53,752,216</u>	<u>47,696,574</u>
Total liabilities and net assets	<u>\$ (110,656,743)</u>	<u>\$ 146,002,448</u>	<u>\$ 97,763,912</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2023 and 2022

	MERF	MSA	MSA 2
Support and Revenues			
Local Control Funding Formula	\$ -	\$ 9,322,669	\$ 6,626,189
Federal revenue	-	1,776,423	1,666,685
Other state revenue	148,875	2,910,588	1,445,656
Local revenues	7,710,514	1,513,944	793,309
Interest income	33,659	72,986	47,362
Rental income	-	-	-
Fundraising revenue	54,838	54,440	44,017
	<u>7,947,886</u>	<u>15,651,050</u>	<u>10,623,218</u>
Total support and revenues			
Expenses			
Program services	1,222,726	9,101,734	5,296,975
Management and general	5,550,535	4,971,128	3,489,025
	<u>6,773,261</u>	<u>14,072,862</u>	<u>8,786,000</u>
Total expenses			
Change in Net Assets before intra-entity transfers	<u>1,174,625</u>	<u>1,578,188</u>	<u>1,837,218</u>
Intra-Entity Transfers			
Transfer in	37,677	-	-
Transfer out	(40,106)	(100,879)	-
	<u>1,172,196</u>	<u>1,477,309</u>	<u>1,837,218</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>2,390,863</u>	<u>9,528,476</u>	<u>3,805,042</u>
Net Assets, End of Year	<u>\$ 3,563,059</u>	<u>\$ 11,005,785</u>	<u>\$ 5,642,260</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2023 and 2022

	<u>MSA 3</u>	<u>MSA 4</u>	<u>MSA 5</u>
Support and Revenues			
Local Control Funding Formula	\$ 4,545,970	\$ 1,466,672	\$ 3,078,104
Federal revenue	388,590	176,284	718,937
Other state revenue	2,323,598	647,944	1,651,872
Local revenues	817,784	362,429	486,215
Interest income	50,513	16,985	38,307
Rental income	-	-	-
Fundraising revenue	9,516	6,735	21,571
	<u>8,135,971</u>	<u>2,677,049</u>	<u>5,995,006</u>
Expenses			
Program services	4,692,934	1,765,588	2,941,887
Management and general	2,835,515	811,604	1,444,281
	<u>7,528,449</u>	<u>2,577,192</u>	<u>4,386,168</u>
Change in Net Assets before intra-entity transfers	<u>607,522</u>	<u>99,857</u>	<u>1,608,838</u>
Intra-Entity Transfers			
Transfer in	-	-	-
Transfer out	-	-	-
	<u>607,522</u>	<u>99,857</u>	<u>1,608,838</u>
Change in Net Assets	<u>607,522</u>	<u>99,857</u>	<u>1,608,838</u>
Net Assets, Beginning of Year	<u>2,646,594</u>	<u>1,349,016</u>	<u>3,694,602</u>
Net Assets, End of Year	<u>\$ 3,254,116</u>	<u>\$ 1,448,873</u>	<u>\$ 5,303,440</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2023 and 2022

	<u>MSA 6</u>	<u>MSA 7</u>	<u>MSA Bell</u>
Support and Revenues			
Local Control Funding Formula	\$ 1,094,325	\$ 3,280,859	\$ 4,583,567
Federal revenue	164,062	625,260	1,137,416
Other state revenue	1,278,388	1,503,660	2,069,897
Local revenues	307,397	758,888	1,125,632
Interest income	14,161	32,382	55,512
Rental income	-	-	-
Fundraising revenue	14,012	10,567	7,464
	<u>2,872,345</u>	<u>6,211,616</u>	<u>8,979,488</u>
Total support and revenues			
Expenses			
Program services	1,517,736	3,817,551	4,624,872
Management and general	945,797	1,749,619	3,182,579
	<u>2,463,533</u>	<u>5,567,170</u>	<u>7,807,451</u>
Total expenses			
Change in Net Assets before intra-entity transfers	<u>408,812</u>	<u>644,446</u>	<u>1,172,037</u>
Intra-Entity Transfers			
Transfer in	-	-	-
Transfer out	-	-	-
	<u>408,812</u>	<u>644,446</u>	<u>1,172,037</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>2,440,121</u>	<u>2,614,648</u>	<u>6,432,844</u>
Net Assets, End of Year	<u>\$ 2,848,933</u>	<u>\$ 3,259,094</u>	<u>\$ 7,604,881</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2023 and 2022

	MSA Santa Ana	MSA Santa Diego	MPM Inc. / LLC
Support and Revenues			
Local Control Funding Formula	\$ 6,429,994	\$ 3,999,105	\$ -
Federal revenue	614,825	227,085	-
Other state revenue	2,725,136	1,075,816	-
Local revenues	1,038,992	607,627	43,392,105
Interest income	76,566	46,999	-
Rental income	-	-	10,031,091
Fundraising revenue	60,986	58,499	-
	<u>10,946,499</u>	<u>6,015,131</u>	<u>53,423,196</u>
Expenses			
Program services	7,916,047	4,482,027	2,358,850
Management and general	2,975,077	1,417,547	39,407
	<u>10,891,124</u>	<u>5,899,574</u>	<u>2,398,257</u>
Change in Net Assets before intra-entity transfers	<u>55,375</u>	<u>115,557</u>	<u>51,024,939</u>
Intra-Entity Transfers			
Transfer in	-	-	257,444
Transfer out	(41,459)	(75,000)	(37,677)
Change in Net Assets	<u>13,916</u>	<u>40,557</u>	<u>51,244,706</u>
Net Assets, Beginning of Year	<u>9,513,550</u>	<u>1,369,110</u>	<u>2,347,376</u>
Net Assets, End of Year	<u>\$ 9,527,466</u>	<u>\$ 1,409,667</u>	<u>\$ 53,592,082</u>

Magnolia Educational & Research Foundation
Consolidating Statement of Activities
Year Ended June 30, 2023 and 2022

	Eliminations	2023 <u>Consolidated</u>	2022 <u>Consolidated</u>
Support and Revenues			
Local Control Funding Formula	\$ -	\$ 44,427,454	\$ 42,193,195
Federal revenue	-	7,495,567	13,322,665
Other state revenue	-	17,781,430	9,930,146
Local revenues	(54,079,215)	4,835,621	577,511
Interest income	-	485,432	35,200
Rental income	(10,031,091)	-	-
Fundraising revenue	-	342,645	172,999
	<u>(64,110,306)</u>	<u>75,368,149</u>	<u>66,231,716</u>
Total support and revenues			
Expenses			
Program services	(779,177)	48,959,750	44,379,556
Management and general	(9,059,357)	20,352,757	17,832,402
	<u>(9,838,534)</u>	<u>69,312,507</u>	<u>62,211,958</u>
Total expenses			
Change in Net Assets before intra-entity transfers	<u>(54,271,772)</u>	<u>6,055,642</u>	<u>4,019,758</u>
Intra-Entity Transfers			
Transfer in	(295,121)	-	-
Transfer out	295,121	-	-
	<u>(54,271,772)</u>	<u>6,055,642</u>	<u>4,019,758</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>(435,668)</u>	<u>47,696,574</u>	<u>43,676,816</u>
Net Assets, End of Year	<u>\$ (54,707,440)</u>	<u>\$ 53,752,216</u>	<u>\$ 47,696,574</u>

Magnolia Educational & Research Foundation
Foundation Only Comparative Statement of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current assets		
Cash	\$ 1,880,254	\$ 3,494,526
Receivables	2,480,183	-
Intra-entity receivable	471,764	734,106
Prepaid expenses	<u>25,872</u>	<u>18,355</u>
Total current assets	<u>4,858,073</u>	<u>4,246,987</u>
Non-current assets		
Security deposit	100,000	100,000
Property and equipment	13,526	14,041
Operating lease right-of-use asset	<u>903,794</u>	<u>-</u>
Total non-current assets	<u>1,017,320</u>	<u>114,041</u>
Total assets	<u>\$ 5,875,393</u>	<u>\$ 4,361,028</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 697,132	\$ 404,868
Intra-entity payable	711,847	1,565,297
Current portion of operating lease liability	<u>158,987</u>	<u>-</u>
Total current liabilities	<u>1,567,966</u>	<u>1,970,165</u>
Long-term liabilities		
Operating lease liability, less current portion	<u>744,368</u>	<u>-</u>
Total liabilities	<u>2,312,334</u>	<u>1,970,165</u>
Net Assets		
Without donor restrictions	<u>3,563,059</u>	<u>2,390,863</u>
Total liabilities and net assets	<u>\$ 5,875,393</u>	<u>\$ 4,361,028</u>

Magnolia Educational & Research Foundation
 Foundation Only Comparative Statement of Activities
 Year Ended June 30, 2023 and 2022

	2023	2022
Support and Revenues		
Other state revenue	\$ 148,875	\$ 123,328
Local revenues	7,710,514	5,710,685
Interest income	33,659	-
Fundraising revenue	54,838	2,303
	7,947,886	6,274,938
Expenses		
Program services	1,222,726	1,729,395
Management and general	5,550,535	5,033,976
	6,773,261	6,763,371
Change in Net Assets before intra-entity transfers	1,174,625	(488,433)
Intra-entity transfers		
Transfer in	37,677	25,717
Transfer out	(40,106)	(104,452)
	1,172,196	(567,168)
Change in Net Assets	1,172,196	(567,168)
Net Assets, Beginning of Year	2,390,863	2,958,031
Net Assets, End of Year	\$ 3,563,059	\$ 2,390,863

Debt Service Coverage

Net income	\$ 6,055,642
Depreciation and amortization	2,638,076
Management fees (50%)	3,400,169
Rent	3,049,873
Income Available for Coverage	15,143,760
Debt Service	3,049,873
Debt Service Coverage	4.97
Limit	1.10
Compliance	Yes

Consolidated Days Cash on Hand

Total Expenses	\$ 69,312,507
Depreciation and amortization	2,638,076
Cash Expenses	66,674,431
Expense/Day	182,670
Cash	41,517,716
Days Cash on Hand	227
Limit	45
Compliance	Yes

Magnolia Educational & Research Foundation
Consolidating Schedule of Property and Equipment
Year Ended June 30, 2023

	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Leasehold improvements	-	3,870,204	-	-	-	-	-
Building	-	648,676	10,061	-	-	-	-
Computer and equipment	134,513	860,707	924,214	617,313	304,072	430,937	263,305
Work in progress	-	564,571	-	94,517	-	1,088,000	-
Total property and equipment	134,513	5,944,158	934,275	711,830	304,072	1,518,937	263,305
Less accumulated depreciation	(120,987)	(1,030,368)	(778,581)	(483,713)	(257,321)	(345,723)	(242,229)
Total	\$ 13,526	\$ 4,913,790	\$ 155,694	\$ 228,117	\$ 46,751	\$ 1,173,214	\$ 21,076

Magnolia Educational & Research Foundation
Consolidating Schedule of Property and Equipment
Year Ended June 30, 2023

	MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	2023 Consolidated	2022 Consolidated
Land	\$ -	\$ -	\$ -	\$ -	\$ 26,531,646	\$ 26,531,646	\$ 2,566,854
Leasehold improvements	18,859	-	296,486	-	-	4,185,549	3,545,828
Building	497,294	-	22,352,893	-	30,189,536	53,698,460	49,276,682
Computer and equipment	228,173	932,750	936,243	770,303	-	6,402,530	6,315,230
Work in progress	343,263	-	-	-	162,772	2,253,123	668,926
Total property and equipment	1,087,589	932,750	23,585,622	770,303	56,883,954	93,071,308	62,373,520
Less accumulated depreciation	(318,680)	(740,857)	(4,446,015)	(588,180)	(3,459,608)	(12,812,262)	(10,174,190)
Total	<u>\$ 768,909</u>	<u>\$ 191,893</u>	<u>\$ 19,139,607</u>	<u>\$ 182,123</u>	<u>\$ 53,424,346</u>	<u>\$ 80,259,046</u>	<u>\$ 52,199,330</u>

Note 1 - Purpose of Supplementary Schedules

Consolidated Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying consolidated schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate

The Organization has not elected to use the ten percent de minimis cost rate.

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance

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

Schedule of Instructional Time

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

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

California Education Code Section 47612.5 states this schedule does not apply to independent study programs; accordingly, such schedule has not been presented.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.

Consolidating Statement of Financial Position and Consolidating Statement of Activities

The consolidating statement of financial position and consolidating statement of activities report the activities of the Organization and related entities and are presented on the accrual basis of accounting. Eliminating entries in the consolidating statement of financial position and consolidating statement of activities are for activities between the Organization and related entities.

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of Magnolia Education & Research Foundation and are presented on the accrual basis of accounting.

Debt Covenants

Some of the Organization's loan agreements are subject to covenant clauses, whereby the Organization is required to meet certain key financial ratios. This schedule provides information related to the debt covenant ratios and related information.

Consolidating Schedule of Property and Equipment

The accompanying consolidating schedule of property and equipment present the comparative balances for Organization and the Subsidiaries property and equipment.



Independent Auditor's Reports
June 30, 2023

**Magnolia Educational &
Research Foundation**



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Magnolia Educational & Research Foundation
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 (*Government Auditing Standards*), the consolidated financial statements of Magnolia Educational & Research Foundation (the Organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) as a basis for designing 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 the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 entity’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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California
December 15, 2023



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Magnolia Educational & Research Foundation’s (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization’s major federal programs for the year ended June 30, 2023. The Organization’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Rancho Cucamonga, California
December 15, 2023



Independent Auditor's Report on State Compliance

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on Compliance

Qualified and Unmodified Opinions on State Compliance

We have audited Magnolia Educational & Research Foundation's (the Organization) compliance with the requirements specified in the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the Organization's state program requirements identified below for the year ended June 30, 2023.

Qualified Opinion on After School Education and Safety Program

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the Organization complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023.

Unmodified Opinion on Each of the Other Programs

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2023, except as described in the accompanying Schedule of Findings and Questioned Costs.

Basis for Qualified and Unmodified Opinions

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on After School Education and Safety Program

As described in the accompanying schedule of findings and questioned costs, the Organization did not comply with requirements regarding After School Education and Safety Program described in the accompanying schedule of findings and questioned costs as item 2023-001. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:

2022-2023 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
GANN Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
Home to School Transportation Reimbursement	No, see below
Independent Study Certification for ADA Loss Mitigation	No, see below
School Districts, County Offices of Education, and Charter Schools	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program	Yes, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	No, See Below
Immunizations	No, See Below
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	No, See Below
Transitional Kindergarten	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	Yes

Programs listed above for “Local Education Agencies Other Than Charter Schools” are not applicable to charter schools; therefore, we did not perform any related procedures.

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

The Organization does not offer a Before School Education and Safety Program; therefore, we did not perform procedures related to the Before School Education and Safety Program.

The Organization does not offer an Independent Study-Course Based Program; therefore, we did not perform any procedures related to the Independent Study-Course Based Program.

The Organization’s charter schools were not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

We did not perform Career Technical Education Incentive Grant procedures because the Organization did not receive funding for this grant.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are described in the accompanying schedule of findings and questioned costs as items 2023-001.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization’s response to the noncompliance findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The Organization's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 *2022-2023 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
December 15, 2023



Schedule of Findings and Questioned Costs
June 30, 2023

Magnolia Educational & Research Foundation

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	No

Identification of major programs

Name of Federal Program or Cluster	Federal Financial Assistance Listing Number
COVID-19: Education Stabilization Fund (ESF) Title I, Part A	84.425D, 84.425U, 84.425W 84.010
Dollar threshold used to distinguish between type A and type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

Internal control over state compliance for programs	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for programs	Unmodified *
Unmodified for all programs except for the following program which was qualified	

Name of Program

* After School Education and Safety Program

None reported.

None reported.

The following finding represents instances of noncompliance relating to compliance with state laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2023-001 40000 – After School Education and Safety Program

Criteria or Specific Requirements

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

Condition

The Organization compiles monthly summaries of student attendance for submission to the CDE. However, in reviewing the Organization’s monthly summary totals for the second semi-annual reporting period, it was noted that the Organization’s monthly totals as summarized did not agree with what was reported on the semi-annual report. The CDE report for the first semi-annual report shows 151 and 7,235 students served for Magnolia Science Academy 8 and Magnolia Science Academy San Diego, respectively. In contrast, the monthly summary totals for July through December 2022 shows 666 and 7,221 students served for the Magnolia Science Academy 8 and Magnolia Science Academy San Diego, respectively.

This resulted in the Organization misstated the number of students served by 501.

Charter School	Summarized Attendance Documentation	Attendance Reported to the CDE	Difference
Magnolia Science Academy 8	666	151	515
Magnolia Science Academy San Diego	7,221	7,235	(14)
			501

Questioned Costs

Under the provisions of the program, there are no questioned costs associated with this condition. However, the number of students served appears understated by 515 students and overstated by 14 for Magnolia Science Academy 8 and Magnolia Science Academy San Diego, respectively, resulting in a misstatement of 501 for the first semi-annual reporting period for the Organization.

Context

The attendance condition was identified when the auditor selected one semi-annual reporting period dated July 2022 to December 2022. Auditor reviewed monthly summaries for the same period noting multiple exceptions as noted above.

Effect

In addition, the Organization was not compliant with *Education Code* Section 8482.4(c)(1) for the 2022-2023 fiscal year, since the number of students served as reported to the CDE is misstated when compared to supporting records.

Cause

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

Repeat Finding

No.

Recommendation

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

Corrective Action Plan and View of Responsible Officials

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

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.