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**JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of MSA San Diego (the Charter School) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA San Diego, as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

The prior year comparative information has been derived from MSA San Diego's financial statement report dated December 15, 2015, which expressed an unmodified opinion. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the MSA San Diego's basic financial statements. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of the MSA San Diego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA San Diego's internal control over financial reporting and compliance.

Rancho Cucamonga, California  
\_\_\_\_\_, 2016

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*FINANCIAL STATEMENTS*

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**STATEMENT OF FINANCIAL POSITION**  
**(With comparative financial information at June 30, 2015)**

**JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 761,775	\$ 382,157
Restricted assets		
Cash held for restricted purposes	106,607	118,998
Accounts receivable	308,121	248,652
Intra-company receivable	10,064	-
Prepaid expenses and other current assets	8,521	-
Total Current Assets	<u>1,195,088</u>	<u>749,807</u>
Non-Current Assets		
Fixed assets	644,168	586,778
Less: accumulated depreciation	302,836	258,217
Total Non-Current Assets	<u>341,332</u>	<u>328,561</u>
Total Assets	<u>\$ 1,536,420</u>	<u>\$ 1,078,368</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accruals	\$ 190,591	\$ 85,518
Intra-company payable	19,442	202,149
Deferred revenue	-	2,940
Total Current Liabilities	<u>210,033</u>	<u>290,607</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>151,806</u>	<u>151,806</u>
Total Liabilities	<u>361,839</u>	<u>442,413</u>
<b>NET ASSETS</b>		
Unrestricted	<u>1,174,581</u>	<u>635,955</u>
Total Liabilities and Net Assets	<u>\$ 1,536,420</u>	<u>\$ 1,078,368</u>

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

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**(With comparative financial information at June 30, 2015)**

**FOR THE YEAR ENDED JUNE 30, 2016**

	2016	2015
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Unrestricted revenues:</b>		
State apportionments	\$ 2,888,409	\$ 2,243,691
Federal revenue	97,228	93,377
Other State revenue	602,791	361,721
Local revenue	84,976	99,896
Total Revenues	3,673,404	2,798,685
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	1,985,116	1,834,111
Student services	128,325	132,745
Materials and supplies	172,634	27,733
Student nutrition	44,650	38,481
Other expenses	105,525	10,249
Subtotal	2,436,250	2,043,319
Management and general:		
Depreciation	44,619	37,442
Management fee	334,759	416,373
Occupancy	305	-
Operating expenses	318,845	110,824
Interest	-	82
Subtotal	698,528	564,721
Total Expenses	3,134,778	2,608,040
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	538,626	190,645
<b>NET ASSETS, BEGINNING OF YEAR</b>	635,955	445,310
<b>NET ASSETS, END OF YEAR</b>	\$ 1,174,581	\$ 635,955

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

**STATEMENT OF CASH FLOWS**  
**(With comparative financial information at June 30, 2015)**

**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ 538,626	\$ 190,645
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	44,619	37,442
Changes in operating assets and liabilities:		
Decrease in assets		
Accounts receivable	(59,469)	54,002
Intra-company receivable	(10,064)	-
Prepaid expenses and other current assets	(8,521)	-
Increase (Decrease) in liabilities		
Accounts payable and accruals	105,073	(50,367)
Intra-company payable	(182,707)	-
Deferred revenue	(2,940)	423
Net Cash Provided by Operating Activities	<u>424,617</u>	<u>232,145</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(57,390)</u>	<u>(100,609)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan principal payments	<u>-</u>	<u>(20,000)</u>
<b>NET INCREASE IN CASH</b>	<u>367,227</u>	<u>111,536</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>501,155</u>	<u>389,619</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 868,382</u>	<u>\$ 501,155</u>
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ 82</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 1 - ORGANIZATION AND MISSION***

**Magnolia Science Academy San Diego**

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (the Charter School) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 420 students. The School offers a rich academic program with elective classes, tutoring, and after school clubs. It was the most improved middle school according to all API scores in the year 2007. The School was created under the approval of the San Diego Unified School District (SDUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

**Magnolia Educational and Research Foundation**

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

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

**Other Related Entities**

**Joint Powers Agency and Risk Management Pools** - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 16 to the financial statements.

***NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

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

**Financial Statement Presentation**

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets as of June 30, 2016 and 2015, respectively. In addition, the Charter School is required to present a statement of cash flows.



**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**Accounting Method - Basis of Accounting**

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

**Revenue Recognition**

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

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the *Statement of Activities* as "net assets released from restrictions." During 2015-2016, the Charter School did not receive any donor-restricted contributions.

**Income Taxes**

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2012 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

**Cash and Cash Equivalents**

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2016 and 2015, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

**Fixed Assets**

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2016 and 2015, was \$44,619 and \$37,442, respectively.

**Donated Services, Goods, and Facilities**

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

**Use of Estimates**

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**Net Asset Classes**

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

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

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

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

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

**Unrestricted/Designated Net Assets**

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Charter School Facilities Program is classified as designated assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2016 and 2015, the amount of restricted assets was \$106,607 and \$118,998, respectively. Also, a designated balance of \$80,491 for California Clean Energy Jobs Act and Educator Effectiveness for the 2016 fiscal year.

**Intra-company Receivable/Payable**

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to the Charter School and reimbursement for those resources.

**Prior Year Comparative Financial Information**

The financial statements include certain prior year 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. Accordingly, such information should be read in conjunction with MSA San Diego's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 3 - CASH AND CASH EQUIVALENTS***

Cash at June 30, 2016 and 2015, consisted of the following:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Reported Amount</u>	<u>Bank Balance</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits				
Cash on hand and in banks	<u>\$ 693,698</u>	<u>\$ 701,240</u>	<u>\$ 280,001</u>	<u>\$ 334,625</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$602,482 and \$326,019 in excess of insured limits.

***NOTE 4 - RESTRICTED CASH***

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2016 and 2015, was comprised of the following:

	<u>2016</u>	<u>2015</u>
Current restricted cash for the Charter School Facilities Program	<u>\$ 106,607</u>	<u>\$ 118,998</u>

Restricted cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Charter School maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2016 and 2015, the Charter School had \$86,607 and \$101,700 in excess of insured limits.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 5 - INVESTMENTS**

**Summary of Investments**

Investments as of June 30, 2016 and 2015, are classified in the accompanying financial statements as follows:

Investment Type	June 30, 2016		June 30, 2015	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Treasury Investment Pool	\$ 68,077	\$ 68,100	\$ 102,156	\$ 102,103

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Charter School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Charter School manages its exposure to interest rate risk by investing in the County Pool.

**NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES**

The Charter School determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2016. The Charter School did not have any liabilities measured at fair value on a recurring basis as of June 30, 2016.

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 68,100	270

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

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

**NOTE 7 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2016 and 2015, consisted of the following:

	2016	2015
State principal apportionment	\$ 182,586	\$ 161,295
Federal receivable	60,717	26,481
State receivable	27,168	27,394
Lottery	37,650	33,482
Total Accounts Receivable	\$ 308,121	\$ 248,652

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**NOTE 8 - INTRA-COMPANY RECEIVABLE**

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company receivable balance of \$10,064 and \$0, respectively, from the Foundation.

**NOTE 9 - PREPAID EXPENSES AND SECURITY DEPOSITS**

Prepaid expenses at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Prepaid rent, security deposits, insurance, and miscellaneous vendors	8,521	\$ -

**NOTE 10 - FIXED ASSETS**

Fixed assets at June 30, 2016 and 2015, consisted of the following:

	2016	2015
Software and equipment	\$ 402,163	\$ 402,163
Work in progress	242,005	184,615
Subtotal	644,168	586,778
Less: accumulated depreciation	(302,836)	(258,217)
Total Fixed Assets	\$ 341,332	\$ 328,561

During the year ended June 30, 2016 and 2015, \$44,619 and \$37,442, respectively, was charged to depreciation expense.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 11 - ACCOUNTS PAYABLE***

Accounts payable at June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 28,984	\$ 36,569
Compensated absences	24,719	-
Vendor payables	100,029	27,694
Due to other agencies	<u>36,859</u>	<u>21,255</u>
Total Accounts Payable	<u>\$ 190,591</u>	<u>\$ 85,518</u>

***NOTE 12 - INTRA-COMPANY PAYABLE***

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to the Charter School and reimbursement for those resources from the Charter School to the Foundation, and cash transfers for cash flow purposes. The Charter School and the Foundation are related because they are the same legal entity; share the same tax identification number, governed by the same board of directors and share key management personnel. At June 30, 2016 and 2015, the Charter School had an intra-company payable balance of \$19,442 and \$202,149, respectively, from the Foundation.

***NOTE 13 - LOANS PAYABLE***

**Charter School Facilities Program**

The Charter School has been approved by the State of California's Charter School Facilities Program for \$3,036,122 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of \$3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of \$1,518,061 and the other 50 percent through a grant in the amount of \$1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from the Charter School's State School Fund Apportionments. The outstanding loan balance as of June 30, 2016, was \$151,806.



**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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***NOTE 14 - FACILITIES USE AGREEMENT***

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating the Charter School education programs and related Charter Schools activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2016, was \$86,652.

***NOTE 15 - RELATED PARTY TRANSACTIONS***

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, is \$334,759 and \$214,224, respectively.

***NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS***

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Charter School chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Charter School has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The Charter School contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Charter School contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**Contributions**

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the Charter School's total contributions were \$131,926 and \$102,985, respectively.

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

**Plan Description**

Qualified employees are eligible to participate in the Charter School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Charter Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

**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.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Charter School is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016 and 2015, are presented above and the total Charter School contributions were \$14,148 and \$6,793, respectively.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$82,130 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Contributions are no longer appropriated in the Annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contributions rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

**NOTE 15 - CONTINGENCIES**

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. No results or conclusions have been provided at the date of this audit report. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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**Litigation**

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

***NOTE 16 - PARTICIPATION IN JOINT POWERS AUTHORITY***

The Charter School are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between The Charter School and CharterSAFE is such that CharterSAFE is not considered a component unit of the Charter School for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2015-2016 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2016 and 2015, the Charter School made payments of \$23,583 and \$32,321, respectively, to CharterSAFE for services received. At June 30, 2016 and 2015, respectively, the Charter School had no recorded accounts receivable or accounts payable to CharterSAFE.

***NOTE 17 - SUBSEQUENT EVENTS***

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, 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.

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*SUPPLEMENTARY INFORMATION*

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**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**JUNE 30, 2016**

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**ORGANIZATION**

Magnolia Science Academy San Diego (Charter Number 0698) was granted on July 1, 2005, by the San Diego Unified School District. The Charter School operates one school, grades six through eight.

**BOARD OF DIRECTORS**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Ms. Noel Russell-Unterburger	Treasurer	October 10, 2017
Mr. Saken Sherkhanov	Secretary	December 11, 2018
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Mr. Ali Korkmaz	Director	September 9, 2020
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

**ADMINISTRATION**

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

See accompanying note to supplementary information.

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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	Final Report	
	Revised	
	Second Period	Annual
	Report	Report
	<u>          </u>	<u>          </u>
Regular ADA		
Sixth	129.24	129.60
Seventh and eighth	<u>276.37</u>	<u>275.63</u>
Total Regular ADA	<u><u>405.61</u></u>	<u><u>405.23</u></u>
 Classroom based ADA		
Sixth	129.24	129.60
Seventh and eighth	<u>276.37</u>	<u>275.63</u>
Total Classroom based ADA	<u><u>405.61</u></u>	<u><u>405.23</u></u>

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

See accompanying note to supplementary information.



**SCHEDULE OF INSTRUCTIONAL TIME**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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Grade Level	1986-87	2015-16	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		64,613	180	N/A	Complied
Grade 7		64,613	180	N/A	Complied
Grade 8		64,613	180	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**FUND BALANCE**

Balance, June 30, 2016, Unaudited Actuals	\$ 1,173,620
Increase (Decrease) in:	
Intra-company receivable	10,064
Prepaid expenses and other current assets	(10,064)
Decrease in:	
Accounts payable and accrued payroll	<u>961</u>
Balance, June 30, 2016, Audited Financial Statement	<u>\$ 1,174,581</u>

See accompanying note to supplementary information.

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2016**

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***NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES***

**Local Education Agency Organization Structure**

This schedule provides information about the school operated, members of the governing board, and members of the administration.

**Schedule of Average Daily Attendance**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Charter School. 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.

**Schedule of Instructional Time**

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

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

**Reconciliation of Annual Financial Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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***INDEPENDENT AUDITOR'S REPORTS***

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy San Diego (MSA San Diego) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA San Diego's basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered MSA San Diego's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MSA San Diego's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA San Diego's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether MSA San Diego's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California  
\_\_\_\_\_, 2016

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

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

**Report on State Compliance**

We have audited Magnolia Science Academy San Diego's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, that could have a direct and material effect on each of the Charter School's State government programs as noted below for the year ended June 30, 2016.

***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Charter School's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the Charter School's compliance with those requirements.

***Unmodified Opinion***

In our opinion, the Charter School complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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

	Procedures Performed
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
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
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes, see below
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

Programs listed above for local education agencies are not applicable to charter schools; therefore, we did not perform any related procedures.

MSA San Diego did not receive funding for the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.



MSA San Diego does not operate a before or after school program within the After School Education and Safety Program; therefore, we did not perform any related procedures.

MSA San Diego does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA San Diego was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

MSA San Diego does not offer Non Classroom-Based Instruction; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

MSA San Diego did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California  
\_\_\_\_\_, 2016

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL STATEMENTS**

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

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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None reported.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

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

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

In planning and performing our audit of the financial statements of Magnolia Science Academy San Diego, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We are pleased to report there are no matters to note for the Charter School for the year ended June 30, 2016.

Rancho Cucamonga, California  
\_\_\_\_\_, 2016