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**JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of Magnolia Science Academy Santa Clara (MSA Santa Clara) (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 MSA Santa Clara'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 MSA Santa Clara'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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Santa Clara, 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 Santa Clara'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 Santa Clara'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 Santa Clara'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 Santa Clara'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**

	2016	2015
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 31,093	\$ 170,245
Accounts receivable	250,024	816,594
Intra-company receivable	20,440	-
Prepaid expenses and other current assets	-	2,854
Total Current Assets	301,557	989,693
Non-Current Assets:		
Security deposits	56,590	39,001
Fixed assets	256,588	250,536
Less: accumulated depreciation	121,238	81,587
Total Non-Current Assets	191,940	207,950
Total Assets	\$ 493,497	\$ 1,197,643
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accruals	\$ 451,911	\$ 232,517
Intra-company payable	728,968	380,000
Current portion of long-term obligations	44,198	57,726
Total Current Liabilities	1,225,077	670,243
Long-Term Obligations:		
Non-current portion of long-term obligations	-	28,863
Total Liabilities	1,225,077	699,106
<b>NET ASSETS</b>		
Unrestricted (Deficit)	(731,580)	498,537
Total Liabilities and Net Assets	\$ 493,497	\$ 1,197,643

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**

	<u>2016</u>	<u>2015</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Unrestricted revenues:</b>		
State apportionments	\$ 709,898	\$ 3,084,298
Federal revenue	27,685	57,606
Other State revenue	400,173	130,109
Local revenue	<u>5,197</u>	<u>76,909</u>
Total Revenues	<u>1,142,953</u>	<u>3,348,922</u>
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	1,284,015	2,077,763
Student services	91,966	54,889
Materials and supplies	13,177	46,113
Student nutrition	13,535	22,710
Special Education fee		
Other expenses	<u>106,208</u>	<u>31,759</u>
Subtotal	<u>1,508,901</u>	<u>2,233,234</u>
Management and general:		
Depreciation	39,651	11,496
Management fee	-	198,742
Occupancy	315,012	500,138
Operating expenses	509,506	273,575
Debt service	-	125
Subtotal	<u>864,169</u>	<u>984,076</u>
Total Expenses	<u>2,373,070</u>	<u>3,217,310</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<u>(1,230,117)</u>	<u>131,612</u>
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	<u>498,537</u>	<u>366,925</u>
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	<u>\$ (731,580)</u>	<u>\$ 498,537</u>

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

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

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ (1,230,117)	\$ 131,612
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation expense	39,651	11,496
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	566,570	(397,811)
Intra-company receivable	(20,440)	-
Prepaid expenses and other current assets	2,854	(2,854)
Security deposits	(17,589)	(1,650)
Increase (Decrease) in liabilities		
Accounts payable and accruals	219,394	(71,651)
Intra-company payable	348,968	380,000
Deferred revenue	-	(182,667)
Net Cash Used in Operating Activities	<u>(90,709)</u>	<u>(133,525)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(6,052)</u>	<u>(85,062)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan proceeds, payments	<u>(42,391)</u>	<u>86,589</u>
 <b>CHANGE IN CASH</b>	<u>(139,152)</u>	<u>(131,998)</u>
<b>CASH, BEGINNING OF YEAR</b>	<u>170,245</u>	<u>302,243</u>
<b>CASH, END OF YEAR</b>	<u>\$ 31,093</u>	<u>\$ 170,245</u>
 <b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>

**NOTE 1 - ORGANIZATION AND MISSION**

Magnolia Science Academy Santa Clara (the Charter School) is a charter school located in Santa Clara, California that provides sixth through twelfth grade education to approximately 100 students. The Charter School was created under the approval of the California State Board of Education, and receives public per-pupil funding to help support their operation. The Charter School is economically dependent on Federal and State funding.

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

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**Related Entity**

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

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

**Other Related Entities**

**Joint Powers Agency and Risk Management Pools** - The Charter School is associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 15 to the financial statements.

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

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

**Financial Statement Presentation**

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

**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.

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

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**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**

For purposes of the Statement of Cash Flows, the Charter School considers all cash in banks and on hand cash equivalents.

**Accounts Receivable**

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

**Prepaid Expenses**

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

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

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**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 \$39,651 and \$11,496, 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.

**Net Asset Classes**

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

Net assets of the Magnolia Science Academy - Santa Clara consist of the following:

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

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

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

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

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**Unrestricted/Designated Net Assets**

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2016 and 2015, respectively, the Charter School has no designated balance.

**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 Santa Clara's financial statements for the year ended June 30, 2015, from which the comparative information was derived.

**NOTE 3 - CASH**

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>\$ 31,093</u>	<u>\$ 31,211</u>	<u>\$ 170,245</u>	<u>\$ 203,017</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2016, 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 \$30,670 and \$197,796, respectively, in excess of insured limits.

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

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***NOTE 4 - ACCOUNTS RECEIVABLE***

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

	<u>2016</u>	<u>2015</u>
State principal apportionment	\$ 230,077	\$ 510,808
Federal receivable	15,951	5,359
State receivable	3,108	-
Lottery	-	41,673
Local receivable	888	258,754
Total Accounts Receivable	<u>\$ 250,024</u>	<u>\$ 816,594</u>

***NOTE 5 - INTRA-COMPANY RECEIVABLE***

The June 30, 2016, 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, the Charter School had an intra-company receivable balance of \$20,440 from the Foundation.

***NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS***

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

	<u>2016</u>	<u>2015</u>
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>\$ 56,590</u>	<u>\$ 41,855</u>

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

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**NOTE 7 - FIXED ASSETS**

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

	<u>2016</u>	<u>2015</u>
Software and equipment	\$ 256,588	\$ 250,536
Less: accumulated depreciation	<u>(121,238)</u>	<u>(81,587)</u>
Total Fixed Assets	<u>\$ 135,350</u>	<u>\$ 168,949</u>

During the year ended June 30, 2016 and 2015, \$39,651 and \$11,946, respectively, was charged to depreciation expense.

**NOTE 8 - ACCOUNTS PAYABLE**

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

	<u>2016</u>	<u>2015</u>
Salaries and benefits	\$ 16,552	\$ 19,750
Compensated absences	748	-
Vendor payables	70,118	168,541
Due to other agencies	3,178	44,226
State principal apportionment	<u>361,315</u>	<u>-</u>
Total Accounts Payable	<u>\$ 451,911</u>	<u>\$ 232,517</u>

**NOTE 9 - INTRA-COMPANY PAYABLE**

The June 30, 2016, 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 \$728,968 and \$380,000, respectively, from the Foundation.

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

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***NOTE 10 - LONG-TERM OBLIGATIONS***

**Chrome Books**

The Charter School entered into a capital lease to purchase 450 chrome books for \$128,744. The terms of the loan require 36 monthly payments of \$4,276, interest rate of 8.00 percent and with a maturity date June 30, 2017. The balance outstanding as of June 30, 2016, is \$44,198.

***NOTE 11 - OPERATING LEASES***

The Charter School leased its facilities in Santa Clara, California, under an operating lease that commenced August 1, 2015, and ended June 30, 2016, with a monthly payment of \$28,295. Total rent and maintenance expense during the year ended June 30, 2016, was \$314,625.

***NOTE 12 - RELATED PARTY TRANSACTIONS***

The Charter School is part of the Foundation. The Charter School pays the Foundation management fees for services received. The amount is calculated based on management assessment. The amount of management fees paid to the Foundation for fiscal year ended June 30, 2016 and 2015, is \$0 and \$198,742, respectively. The management fees incurred by MSA Santa Clara were not billed by the Foundation due to MSA Santa Clara being in a deficit net asset position during 2015-2016.

**Intra-Company Loan**

During 2015-2016, the board authorized a loan between Home Office to the Charter School for temporary financial hardship. As of June 30, 2016, the balance outstanding is \$728,968. Future repayment of the outstanding balance will be absorbed by the Home Office as part of the closeout procedures.

***NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS***

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

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

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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 \$177 billion, the actuarial obligation is \$242 billion, contributions from all employers totaled \$2.6 billion, and the plan is 68.5 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

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

**Benefits Provided**

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

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

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

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

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

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

**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 \$87,120 and \$127,177, respectively.

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

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2015, the Schools Pool total plan assets are \$57 billion, the total accrued liability is \$72 billion, contributions from all employers totaled \$1.3 billion, and the plan is 79.2 percent funded. The Charter School did not contribute more than five percent of the total contributions to the plan.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2015. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

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

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**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, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	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 \$7,140 and \$7,580, respectively.

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

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**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$93,215 (7.12589 percent of the Charter School's salaries subject to CalSTRS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

***NOTE 14 - CONTINGENCIES***

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. 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.

**Litigation**

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

***NOTE 15 - PARTICIPATION IN JOINT POWERS AUTHORITY***

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

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and the Charter School are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 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 \$26,270 and \$45,820, 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.

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

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***NOTE 16 - SUBSEQUENT EVENTS***

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through \_\_\_\_\_, 2016, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year financial.

On July 1, 2016, the Magnolia Educational Research Foundation voted to close MSA Santa Clara as of June 30, 2016. Management has implemented procedures as required in accordance with the California *Education Code* for the closeout of a charter school.

***NOTE 17 - CLOSEOUT PROCEDURES***

On July 1, 2016, the board of the Magnolia Educational and Research Foundation (MERF) voted to close the Magnolia Science Academy Santa Clara Charter School (MSA Santa Clara), effective, June 30, 2016, due to fiscal concerns. MERF acting as MSA Santa Clara's management organization (CMO) will be the responsible party for handling MSA Santa Clara closure. As part of the final audit, MSA Santa Clara is required to determine the net assets or liabilities and disclose required information.

1. The Charter School has an operating deficit of \$(1,230,117) in the 2015-2016 year and an overall deficit of \$(730,580) as of June 30, 2016;
2. The Charter School has outstanding restricted funds due back to government agencies in the amount of \$364,493;
3. MERF has inventoried and assigned a fair market value to all Charter School usable furnishings, equipment, and supplies and has, as per MERF Board approval, redistributed all usable furnishings, equipment, and supplies to other charter schools operated by MERF's corporation; the receiving charter schools have paid the fair market value to Charter School for receipt of all usable furnishings, equipment, and supplies it has received;
4. No donated materials and property were required to be returned;
5. All grants and restricted categorical funds have been identified and returned to their source according to the terms of the grant or state and federal law;
6. MERF has prepared and submitted final expenditure reports for any entitlement grants and has filed Final Expenditure Reports and Final Performance Reports, as appropriate;
7. A formal plan to resolve the transferring of all remaining assets and liabilities of MSA SC will be completed during 2016-2017, to transfer available surplus reserves not restricted to absorb the overall deficit related to legitimate educational and operational expenses incurred in closing of this charter school, The Charter School's bank accounts for MSA SC were closed with approximately \$5,000 being transferred into MERF's main account;
8. Remaining loan agreements were assigned to MERF and any additional cost incurred subsequently will be recorded in MERF's financial records;
9. MERF is a solvent continuing nonprofit entity operating other charter schools and will not have another charter school, legal entity, or the Board of Directors, or another individual assume liabilities of the closed Charter School;

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

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10. Student and Employee records maintenance has been completed in accordance with required laws and *Education Code*.

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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 Santa Clara (Charter School No. 1116) was granted on July 9, 2009, by the Santa Clara County Office of Education. The Charter School operates one school, grades six through twelve.

**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	
	Second Period Report	Annual Report
Regular ADA		
Sixth	16.69	16.67
Seventh and eighth	54.42	54.23
Ninth through twelfth	24.14	24.36
Total Regular ADA	<u>95.25</u>	<u>95.26</u>
Classroom based ADA		
Sixth	16.69	16.67
Seventh and eighth	54.42	54.23
Ninth through twelfth	24.14	24.36
Total Classroom based ADA	<u>95.25</u>	<u>95.26</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		65,300	176	N/A	Complied
Grade 7		65,300	176	N/A	Complied
Grade 8		65,300	176	N/A	Complied
Grade 9	64,800				
Grade 10		65,300	176	N/A	Complied
Grade 11		65,300	176	N/A	Complied
Grade 12		65,300	176	N/A	Complied

See accompanying note to supplementary information.

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 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 (DEFICIT)	
Balance, June 30, 2016, Unaudited Actuals	\$ (728,323)
Increase in:	
Accounts payable	<u>(3,257)</u>
Balance, June 30, 2016,	
Audited Financial Statement (Deficit)	<u>\$ (731,580)</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 Santa Clara  
(A California Nonprofit Public Benefit Corporation)  
Westminster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Clara (MSA Santa Clara) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MSA Santa Clara'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 Santa Clara'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 Santa Clara's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA Santa Clara'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 MSA Santa Clara'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 Santa Clara'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 MSA Santa Clara's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Santa Clara'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 Santa Clara  
(A California Nonprofit Public Benefit Corporation)  
Westminster, California

**Report on State Compliance**

We have audited Magnolia Science Academy Santa Clara's (MSA Santa Clara) 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 MSA Santa Clara'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 MSA Santa Clara'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 MSA Santa Clara'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 MSA Santa Clara's compliance with those requirements.

**Unmodified Opinion**

In our opinion, MSA Santa Clara 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.

**Other Matters**

**DRAFT 12/02/2016**

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

	<u>Procedures Performed</u>
<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 Santa Clara did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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

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

MSA Santa Clara 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 Santa Clara 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 Educational & Research Foundation  
(A California Nonprofit Public Benefit Corporation)  
Westminster, California

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Ana 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.