



**MAGNOLIA SCIENCE ACADEMY  
BELL**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2017**

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

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**JUNE 30, 2017**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of Magnolia Science Academy Bell (MSA Bell) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years 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 *2016-2017 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 Bell'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 Bell'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 Bell, as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 financial statements.

The accompanying supplementary information 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 December 15, 2017, on our consideration of MSA Bell's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MSA Bell's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSA Bell's internal control over financial reporting and compliance.

*Vannink, Tinn, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2017

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***FINANCIAL STATEMENTS***

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**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF FINANCIAL POSITION**  
**(With comparative financial information at June 30, 2016)**

**JUNE 30, 2017**

	2017	2016
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 925,839	\$ 2,029,820
Accounts receivable	384,871	479,912
Intra-company receivable	2,073,307	612,759
Prepaid expenses and other current assets	20,446	12,091
Total Current Assets	3,404,463	3,134,582
Non-Current Assets		
Fixed assets	313,302	202,508
Less: accumulated depreciation	(129,618)	(61,812)
Total Non-Current Assets	183,684	140,696
Total Assets	\$ 3,588,147	\$ 3,275,278
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accruals	\$ 208,560	\$ 196,893
Intra-company payable	13,188	74,210
Total Current Liabilities	221,748	271,103
<b>NET ASSETS</b>		
Unrestricted	3,309,032	2,904,318
Designated	57,367	99,857
Total Net Assets	3,366,399	3,004,175
Total Liabilities and		
Net Assets	\$ 3,588,147	\$ 3,275,278

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

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF ACTIVITIES**  
**(With comparative financial information at June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	2017	2016
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Unrestricted revenues:</b>		
State apportionments	\$ 4,526,038	\$ 4,186,383
Federal revenue	309,446	300,266
Other State revenue	786,188	936,594
Local revenue	71,939	124,582
Total Revenues	5,693,611	5,547,825
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	2,989,946	3,095,595
Student services	197,709	198,391
Materials and supplies	27,006	151,337
Student nutrition	163,222	181,371
Other expenses	185,334	196,162
Subtotal	3,563,217	3,822,856
Management and general:		
Depreciation	67,806	44,395
Management fee	1,052,849	1,000,958
Occupancy	235,424	-
Operating expenses	412,091	552,106
Subtotal	1,768,170	1,597,459
Total Expenses	5,331,387	5,420,315
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	362,224	127,510
<b>NET ASSETS, BEGINNING OF YEAR</b>	3,004,175	2,876,665
<b>NET ASSETS, END OF YEAR</b>	\$ 3,366,399	\$ 3,004,175

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

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATEMENT OF CASH FLOWS**  
**(With comparative financial information at June 30, 2016)**

**FOR THE YEAR ENDED JUNE 30, 2017**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ 362,224	\$ 127,510
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	67,806	44,395
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	95,041	(57,498)
Intra-company receivable	(1,460,548)	(463,839)
Prepaid expenses and other current assets	(8,355)	(12,091)
Increase (Decrease) in liabilities		
Accounts payable and accruals	11,667	58,685
Intra-company payable	(61,022)	74,210
Net Cash Provided by (Used in) Operating Activities	(993,187)	(228,628)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(110,794)	(163,109)
<b>NET CHANGE IN CASH</b>	(1,103,981)	(391,737)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	2,029,820	2,421,557
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 925,839	\$ 2,029,820
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	\$ -	\$ -

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



**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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

**Magnolia Science Academy Bell**

Charter school number authorized by the State: 1236

Magnolia Science Academy-8 (MSA Bell) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 495 students. MSA Bell was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Bell is economically dependent on Federal and State funding.

**Magnolia Educational and Research Foundation**

MSA Bell is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA Bell's Charter School Management Organization (CMO) that manages MSA Bell's nonacademic operation such as financial, general administration, and human resource management. MSA Bell'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** - MSA Bell 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 MSA Bell. Additional information is presented in Note 15 to the financial statements.

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

The significant policies followed by MSA Bell are described below to enhance the financial statements.

**Financial Statement Presentation**

MSA Bell 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. MSA Bell had no temporarily or permanently restricted net assets as of June 30, 2017 and 2016, respectively. In addition, MSA Bell is required to present a statement of cash flows.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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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. MSA Bell 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 2016-2017, MSA Bell did not receive any donor-restricted contributions.

**Income Taxes**

MSA Bell 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 2013 and forward may be audited by regulatory agencies; however, MSA Bell is not aware of any such actions at this time.

MSA Bell 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, MSA Bell considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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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, 2017 and 2016, 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. MSA Bell has reported prepaid items either when purchased or during the benefiting period.

**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, 2017 and 2016, was \$67,806 and \$44,395, respectively.

**Donated Services, Goods, and Facilities**

A substantial number of volunteers have donated their time and experience to MSA Bell'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.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**Net Asset Classes**

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

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

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

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

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

**Unrestricted/Designated Net Assets**

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. As of June 30, 2017 and 2016, MSA Bell has a \$57,367 and \$99,897, respectively, designated balance for California Clean Energy Jobs Act, Educator Effectiveness, and College Readiness funds.

**Intra-company Receivable/Payable**

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

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash at June 30, 2017 and 2016, consisted of the following:

	June 30, 2017		June 30, 2016	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash in banks	\$ 925,839	\$ 951,115	\$ 2,029,820	\$ 2,097,984

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Bell maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Bell has not experienced any losses in such accounts. At June 30, 2017 and 2016, MSA Bell had a balance of \$926,614 and \$2,061,627, respectively, in excess of FDIC insured limits. Management believes MSA Bell is not exposed to any significant risk related to cash.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
State principal apportionment	\$ 296,662	\$ 392,048
Due from other agencies	3,014	8,643
Federal receivable	27,902	504
State receivable	13,391	27,090
Lottery	<u>43,902</u>	<u>51,627</u>
Total Accounts Receivable	<u>\$ 384,871</u>	<u>\$ 479,912</u>

**NOTE 5 - INTRA-COMPANY RECEIVABLE**

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell 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, 2017 and 2016, MSA Bell had an intra-company receivable balance of \$2,073,307 and \$612,759, respectively, from the Foundation.

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

Prepaid expenses at June 30, 2017 and 2016, are as follows:

	<u>2017</u>	<u>2016</u>
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>\$ 20,446</u>	<u>\$ 12,091</u>

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**NOTE 7 - FIXED ASSETS**

Fixed assets at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Software and equipment	\$ 313,302	\$ 202,508
Less: accumulated depreciation	<u>(129,618)</u>	<u>(61,812)</u>
Total Fixed Assets	<u>\$ 183,684</u>	<u>\$ 140,696</u>

During the year ended June 30, 2017, \$67,806 and \$44,395, respectively, was charged to depreciation expense.

**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Salaries and benefits	\$ 80,371	\$ 61,269
Compensated absences	-	25,969
Vendor payables	128,189	105,784
Due to other agencies	-	3,871
Total Accounts Payable	<u>\$ 208,560</u>	<u>\$ 196,893</u>

**NOTE 9 - INTRA-COMPANY PAYABLE**

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Bell and reimbursement for those resources from MSA Bell to the Foundation, and cash transfers for cash flow purposes. MSA Bell 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, 2017 and 2016, MSA Bell had an intra-company payable balance of \$13,188 and \$74,210, respectively, from the Foundation.

**NOTE 10 - FACILITIES USE AGREEMENT**

Magnolia Science Academy 8 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA Bell education programs and related charter school activities. The terms of this agreement are renewed annually and include rental fees that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2017 and 2016, was \$235,424 and \$282,890, respectively.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***NOTE 11 - RELATED PARTY TRANSACTIONS***

MSA Bell is part of the Foundation. MSA Bell pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal year ended June 30, 2017 and 2016, were \$1,052,849 and \$1,000,958, respectively.

***NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS***

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA Bell chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA Bell 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**

MSA Bell 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, 2016, total actuarial value of assets are \$170 billion, the actuarial obligation is \$267 billion, contributions from all employers totaled \$3.3 billion, and the plan is 63.7 percent funded. MSA Bell 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>.

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**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**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.

MSA Bell 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, 2017, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

**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, 2017 and 2016, are presented above and MSA Bell's total contributions were \$220,308 and \$190,540, respectively.



**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**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. MSA Bell 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>.

**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.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	School Employer Pool (CalPERS)	
	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	7.00%	6.00%
Required employer contribution rate	13.888%	13.888%

**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. MSA Bell 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, 2017 and 2016, are presented above and the total Charter School contributions were \$0 and \$34,719, respectively.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of MSA Bell. These payments consist of State General Fund contributions to CalSTRS in the amount of \$150,524 (8.828 percent of MSA Bell'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.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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***NOTE 14 - CONTINGENCIES***

**Grants**

MSA Bell 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. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

**Litigation**

MSA Bell is not currently a party to any legal proceedings.

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

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

The CharterSAFE has budgeting and financial reporting requirements independent of member units and the CharterSAFE's financial statements are not presented in these financial statements; however, transactions between the CharterSAFE and MSA Bell are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2016-2017 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2017 and 2016, MSA Bell made payments of \$25,858 and \$46,189, respectively, to CharterSAFE for services received. At June 30, 2017 and 2016, respectively, MSA Bell had no recorded accounts receivable or accounts payable to the CharterSAFE.

***NOTE 16 - SUBSEQUENT EVENTS***

MSA Bell's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through December 15, 2017, 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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**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**JUNE 30, 2017**

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**ORGANIZATION**

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District. MSA Bell operates one school, grades six through twelve.

**BOARD OF DIRECTORS**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ms. Noel Russell-Unterburger	President	October 10, 2017
Mr. Serdar Orazov	Treasurer	September 9, 2020
Dr. Umit Yapanel, Ph.D.	Secretary	October 10, 2017
Mr. Haim Beliak	Director	February 8, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mrs. Diane Gonzalez	Director	December 2019
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020
Mr. Saken Sherkhanov	Director	December 11, 2018

**ADMINISTRATION**

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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	<u>Final Report</u>	
	<u>Second Period</u>	<u>Annual</u>
	<u>Report</u>	<u>Report</u>
Regular ADA		
Sixth	163.80	164.05
Seventh and eighth	<u>321.85</u>	<u>320.48</u>
Total Regular ADA	<u><u>485.65</u></u>	<u><u>484.53</u></u>
Classroom based ADA		
Sixth	163.80	164.05
Seventh and eighth	<u>321.85</u>	<u>320.48</u>
Total Classroom based ADA	<u><u>485.65</u></u>	<u><u>484.53</u></u>

MSA Bell did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY BELL  
(A California Nonprofit Public Benefit Corporation)**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2017**

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Grade Level	1986-87	2016-17	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000				
Grade 6		63,820	180	N/A	Complied
Grade 7		63,820	180	N/A	Complied
Grade 8		63,820	180	N/A	Complied

See accompanying note to supplementary information.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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Summarized below are the net assets reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

NET ASSETS

Balance, June 30, 2017, Unaudited Actuals	\$ 3,333,071
Increase (Decrease) in:	
Intra-company receivable	2,073,307
Prepaid expenses and other current assets	(2,073,307)
(Increase) in:	
Accounts payable and accrued payroll	<u>33,328</u>
Balance, June 30, 2017, Unaudited Actuals	
Audited Financial Statement	<u>\$ 3,366,399</u>



**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2017**

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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 MSA Bell. 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 MSA Bell and whether MSA Bell 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 net assets 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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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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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 Bell  
(A California Nonprofit Public Benefit Corporation)  
Bell, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Bell (MSA Bell), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered MSA Bell'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 Bell's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA Bell'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 Bell's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSA Bell'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 Bell'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 Bell's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Vannink, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2016



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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

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

### **Report on State Compliance**

We have audited Magnolia Science Academy Bell's (MSA Bell) compliance with the types of compliance requirements as identified in the *2016-2017 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 Bell's State government programs as noted below for the year ended June 30, 2017.

### ***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 Bell'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 *2016-2017 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 Bell'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 Bell's compliance with those requirements.

### ***Unmodified Opinion on Each of the Programs***

In our opinion, MSA Bell 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, 2017.

**Other Matters**

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA Bell'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
Mental Health Expenditures	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
Educator Effectiveness	No, see below
California Clean Energy Jobs Act	No, see below
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
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 Bell did not have expenditures of Educator Effectiveness funds; therefore, we did not perform any related procedures.

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

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

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

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

MSA Bell 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 Bell did not receive funding for MSA Bell Facility Grant Program; therefore, we did not perform any related procedures.

*Vannink, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
December 15, 2017

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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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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**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

**MAGNOLIA SCIENCE ACADEMY BELL**  
**(A California Nonprofit Public Benefit Corporation)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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There were no audit findings reported in the prior year.



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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

In planning and performing our audit of the financial statements of Magnolia Science Academy Bell, for the year ended June 30, 2017, 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 MSA Bell for the year ended June 30, 2017.

*Vavrinek, Trine, Day & Co., LLP*  
Rancho Cucamonga, California  
December 15, 2017